2006/2007
ANNUAL REPORT

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Board of Directors

John Plohman (Chair)
Walter Kolisnyk (Vice Chair)
Frieda Krpan (Vice Chair)
Harry Sotas
Carol Masse
Sandy Yanick
Frank Fiarchuk
Wilfred Harder

Executive Management

Neil Hamilton – President & CEO
Charlene Kibbins – Senior Vice President, Planning & Lending Programs
Herb Sulkers – Vice President, Insurance Operations
Paul Bonnet – Vice President, Research & Program Development
Jim Lewis – Vice President, Finance & Administration
Karen McEachen – Vice President, Lending Operations
Lester Vopni – General Counsel and Manager, Legal Services
Kim Poschenrieder – Manager, Corporate Services

This annual report can be found online at www.masc.mb.ca.

La version française de ce rapport annuel se trouve sur le site Internet www.masc.mb.ca.

Minister of Agriculture, Food
and Rural Initiatives

Room 165
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

The Honourable John Harvard, P.C., O.M.
Lieutenant-Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Your Honour:

I am pleased to submit the Annual Report of the Manitoba Agricultural Services Corporation for the fiscal year ending March 31, 2007.

Yours truly,

Rosann Wowchuk

Rosann Wowchuk
Minister

MASC
Manitoba Agricultural Services Corporation

The Honourable Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives
165 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Madam:

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Manitoba Agricultural Services Corporation for the fiscal year ending March 31, 2007.

Yours truly,

John S. Plohman

John S. Plohman
Chair, Board of Directors

CHAIR'S MESSAGE

The 2006/2007 fiscal year was a complex yet fulfilling year for MASC, primarily because it was MASC's first full year as a new corporation. Although the amalgamation of the former Manitoba Crop Insurance Corporation and Manitoba Agricultural Credit Corporation at times was challenging, in the end MASC successfully transitioned into an integrated and efficient organization that offers insurance and specialized lending products to Manitoba's agricultural and rural business sectors.

MASC's insurance products continue to effectively stabilize the net incomes of Manitoba's crop producers. Production Insurance participation was up from the previous year at nine million acres insured, with total liability of $1.03 billion. Indemnities were just over $43 million, a sharp contrast to the record-breaking years of 2004 and 2005, when almost $500 million was paid out. Hail Insurance participation increased by 40 per cent, covering 3.3 million acres and a total liability of $364 million. Hail Insurance indemnities for 2006/2007 were $4.8 million, compared to net premium income of $12.2 million.

Lending activity showed modest growth in 2006/2007, with MASC being involved in a total lending portfolio of $646.2 million as of March 31, 2007. This includes the approval of $54.1 million in agricultural loans, $101.7 million in agricultural loans with guarantees and $1.9 million in non-agricultural loans with guarantees. MASC's focus on assisting young farmers resulted in significant activity in the Young Farmer Rebates and Management Training Credits, with $1.3 million in benefits being provided.

MASC's quest to provide the best possible products and service to Manitoba's agricultural sector resulted in program enhancements. The following enhancements were made to the Production Insurance program: an Excess Moisture Insurance buy-up option of $25 per acre was offered; proso millet and sweet corn were added as insurable crops; the maximum coverage level for open pollinated corn and hemp grain was increased to 80 per cent; the insurable area for soybeans was expanded; and a fall frost insurance project was introduced on a pilot basis. In terms of lending, the financing gaps left by traditional lenders resulted in MASC broadening its programming. Rural Entrepreneur Assistance (REA) was enhanced to allow more businesses to qualify for loan guarantees, with higher loan limits and longer amortization periods. In addition, the lending limits and net worth eligibility cap associated with MASC's Direct Loans were increased to ensure that programming remains responsive to MASC's target clientele.

MASC has a demonstrated expertise in effective program delivery. MASC is involved in delivering Alternative Land Use Services (ALUS): An Ecological Goods and Services Research Project – Manitoba, through which farmers are compensated for certain environmental practices. In 2006/2007, MASC issued ALUS payments of almost

$300,000 covering nearly 21,000 acres of eligible land. In addition, MASC successfully administered the Farmland School Tax Rebate for the Manitoba government, providing payments of $21.6 million to over 30,000 eligible landowners. MASC continues to support Manitoba's agricultural industry by providing cost effective inspection services.

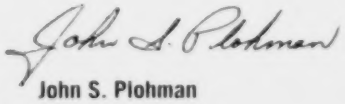
In 2006/2007, MASC initiated changes designed to promote greater efficiency in its business processes. The Application Information Manager (AIM) system was implemented, streamlining lending processes at the field level. A computerized post-harvest claim adjusting system was introduced, which is expected to further improve on claim turnaround time. In addition, pre-printing the Farmland School Tax Rebate information helped to dramatically reduce the complexity of the application process and speed up payments.

Effective insurance programs and the availability of credit are essential for farmers to manage their risk and achieve their business goals. In order to maintain our responsiveness to client needs, MASC's Board of Directors continued our practice of meeting with producers and producer groups. These meetings allowed us to solicit feedback and input on possible program changes and to gauge our performance.

The MASC team continues to work hard in adapting to the new corporation. To aid in this, MASC held its first training seminar, the theme of which was "Embracing Change." The seminar facilitated open dialog between the Board members, executive management and staff. The discussion focused on the merger, its impact on employees and the services they provide. This especially gave MASC staff the opportunity to identify ways of enhancing the already exemplary service that MASC's clients have come to expect. Based on our client comments and customer service results, our clients are more pleased than ever with the service they are receiving.

In closing, as I look forward to 2007/2008, I want to thank the staff, the members of the Board and our Minister for their dedicated work on behalf of our clients. Our Board has continued its work on developing our governance policies and streamlining our operations for effective decision making and efficient service delivery. On behalf of the Board, I want to reflect on the talents and dedication of our staff and management as they strive to make a difference in the industry we serve.

Lastly, on behalf of everyone at MASC, I would like to thank our clients for their continued support and confidence.



John S. Plohman
Chair

BOARD OF DIRECTORS (L TO R)
Back Row: Wilfred Harder, Frank Fiarchuk, Harry Sotas, Carol Masse, Sandy Yanick
Front Row: Walter Kolisnyk, John Plohman, Frieda Krpan

EXECUTIVE MANAGEMENT (L TO R)
Back Row: Paul Bannet, Neil Hamilton, Herb Sulkers, Jim Lewis
Front Row: Karen McEachen, Charlene Kibbins, Lester Vopni, Kim Poschenrieder

MISSION

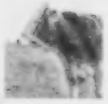
Providing financial products and services that help manage agricultural risk and assist in the sustainable development of rural Manitoba

VISION

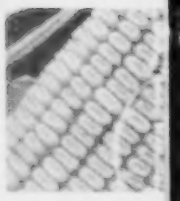
- Expand and enhance products and services
- Increase lending and insurance activity
- Improve efficiency and effectiveness of business processes as a newly amalgamated corporation
- Enhance agricultural producers' awareness of MASC's products as a consideration in farm business planning
- Evolve lending programs in response to changing industry demographics
- Foster career satisfaction by encouraging employee initiative in a positive work environment
- Act as the primary delivery agent of government income support programs for Manitoba's agricultural producers

Lending and Insurance – Building a strong rural Manitoba

STRATEGIC PLAN REVIEW



A number of strategies have been established for achieving MASC's vision. The following is a review of MASC's Strategic Implementation Plan and accomplishments for 2006/2007.



STRATEGY
DEVELOP NEW PRODUCTS

Results:

- In response to requests from producer groups, MASC implemented changes and enhancements to the Production Insurance program in 2006, which included:
  - enhancing Excess Moisture Insurance (EMI) to allow producers to buy up from the basic $50 to $75 of coverage per acre
  - expanding the insurable area for soybeans
  - increasing the maximum coverage for hemp grain and open pollinated corn to 80 per cent of probable yield
  - adding proso millet and sweet corn as insurable crops
  - offering a fall frost insurance pilot program in four areas of the province
- In support of the Manitoba government's green initiatives, MASC has developed Environmental Enhancement Loans to assist producers in financing environmental enhancement projects approved under the Canada-Manitoba Farm Stewardship program. As well, MASC has developed Alternate Energy Loans, which will assist smaller ethanol, biodiesel and wind operations. MASC is planning to implement both of these programs in 2007.
- MASC is committed to constant review and analysis of its programming to ensure that it remains relevant to the emerging financial needs of Manitoba producers. MASC increased the lending limits and maximum net worth eligibility cap to ensure that producers with modest sized operations continue to have access to reasonable financing.
- Under the Manitoba Livestock Associations Loan Guarantee program, provisions were made to include breeder associations, with a new breeder association being formed in 2006/2007.
- MASC implemented improvements to Rural Entrepreneur Assistance (REA), which provides guarantees for term financing to rural businesses. The maximum guaranteed loan amount was increased from $100,000 to $200,000, thereby providing more opportunities for larger projects. Financing for the purchase of existing businesses is now included and the maximum duration of a guarantee has been extended from five years to 10 years.

STRATEGY
DEVELOP/DELIVER GOVERNMENT INCOME SUPPORT PROGRAMS

Results:

- MASC staff continued to participate on the federal-provincial working groups dealing with Production Insurance and Business Risk Management under the Agricultural Policy Framework.
- In conjunction with Manitoba Agriculture, Food and Rural Initiatives, MASC participated in reviews of the Canadian Agricultural Income Stabilization (CAIS) program administration and the Wildlife Damage Compensation program.
- In addition, program details, funding agreements and administrative processes were finalized for Alternative Land Use Services (ALUS): An Ecological Goods and Services Research Project – Manitoba, which is offered in the RM of Blanshard.

STRATEGY
IMPROVE BUSINESS PROCESS EFFICIENCIES

Results:

- In order to reduce the average processing time on claims, MASC implemented a computerized post-harvest claim adjusting system. The system makes all the necessary calculations, thereby reducing the possibility of errors. For 2007/2008, the project is being expanded from six to 25 adjustors, covering all 19 insurance offices.

- The Application Information Manager data system for assessing loans was implemented. Lending representatives are now able to input loan applications at the field level, reducing paperwork and the time involved in getting a loan approved.
- The mandate for the internal audit function was finalized and the related positions were staffed. Internal audit's 2007/2008 workplan is geared towards process efficiency.
- MASC negotiated an agreement on short-term investments and loans with Manitoba Finance that will lead to higher returns for insurance and savings for lending.
- MASC worked with Information and Communications Technologies Services Manitoba to set up and test a new communication process using high speed Internet lines. The process proved to be very successful, with additional offices to be converted to the new system in 2007/2008.
- A system was developed allowing all staff full access to corporate files.

STRATEGY:
EXPAND INSPECTION SERVICES

Results:
- A process for auditing non-federally regulated food processing plants was developed and adjustors have been recruited for this purpose. Related training will begin in 2007/2008.
- Negotiations are underway regarding potential MASC involvement in carbon credit verification.
- MASC completed 129 on-farm verifications for ALUS: An Ecological Goods and Services Research Project – Manitoba.
- Agreements were entered into with private sector property and casualty insurers for their third party crop loss appraisal.

STRATEGY:
IMPROVE MANAGEMENT OF HUMAN RESOURCES

Results:
- To reflect the merger of the two corporations, MASC developed a new staff performance appraisal system and Human Resource Management Policy. As well, negotiations are currently underway for combining the collective agreement administrative components of the two former corporations.
- A staff feedback session with MASC Board members was held at the staff training seminar. The Staff Feedback Committee was formed to address the issues that were identified during the feedback session. In addition, the Internal Communications Committee was established to identify ways in which internal communications could be improved. Both committees provided recommendations to the Executive Management Committee, which in turn developed action plans to address the identified issues.
- In addition to staff attending individual training opportunities specific to their development, needs and ambitions, general training opportunities were provided in Microsoft Outlook, Leadership Development Training, and Manitoba Strategy/Leadership.

STRATEGY:
IMPLEMENT A CORPORATE MARKETING PLAN

Results:
- In conjunction with Communication Services Manitoba, a comprehensive three-year communications strategy to increase awareness of MASC's programs and services was developed.
- The Website Development Committee was established for the purpose of improving MASC's integrated website. Implementation of the website redevelopment is to begin in 2007. Recommendations were also developed for an MASC Intranet site.
- MASC continues to proactively advocate farm safety. Farm safety resource material was provided for display in all MASC offices, and safety kits were provided to field offices for distribution. MASC also sponsored Creating Safe Play Areas on Farms and Manitoba Farmers with Disabilities.

STRATEGY:
ENHANCE GOVERNANCE PRACTICES

Results:
- As a result of the amalgamation, a number of Board policies, covering such things as code of ethics, risk management, human resource management, have been developed. The Board committee structure was reviewed, resulting in a streamlining of operation through the elimination of the Board Insurance and Lending Committees.

CORPORATE GOVERNANCE

Mandate of the Board

MASC is a Crown corporation of the Province of Manitoba, established by *The Manitoba Agricultural Services Corporation Act*. MASC's Board of Directors is comprised of up to nine directors who are appointed by the Lieutenant-Governor in Council. The Board Chair and the Vice Chairs are similarly appointed. MASC's Board of Directors reports to Manitoba's Minister of Agriculture, Food and Rural Initiatives. The Board of Directors sets the long-term goals and strategies of MASC, establishes governance policies, and approves programming.

Board Committee Structure

The function of the Board of Directors is assisted by the work of the following two Board Committees:

AUDIT AND FINANCE COMMITTEE identifies and minimizes risk to MASC's business operations by reviewing financial reporting, risk management and actuarial functions and by monitoring corporate integrity and compliance with applicable authorities.

PLANNING AND PRIORITY COMMITTEE generally acts in place of the Board on matters that require decisions or action prior to the next meeting of the Board. The committee reviews and revises policies as required prior to consideration by the Board.

ADMINISTRATION

MASC has a permanent staff complement of 150, supplemented as required by adjustors and part-time staff. Over 150 adjustors are employed on an as-needed basis. MASC's programs and services are delivered by 19 insurance and 16 lending offices strategically located throughout the province. Insurance and lending operations are based out of Portage la Prairie and Brandon, respectively.

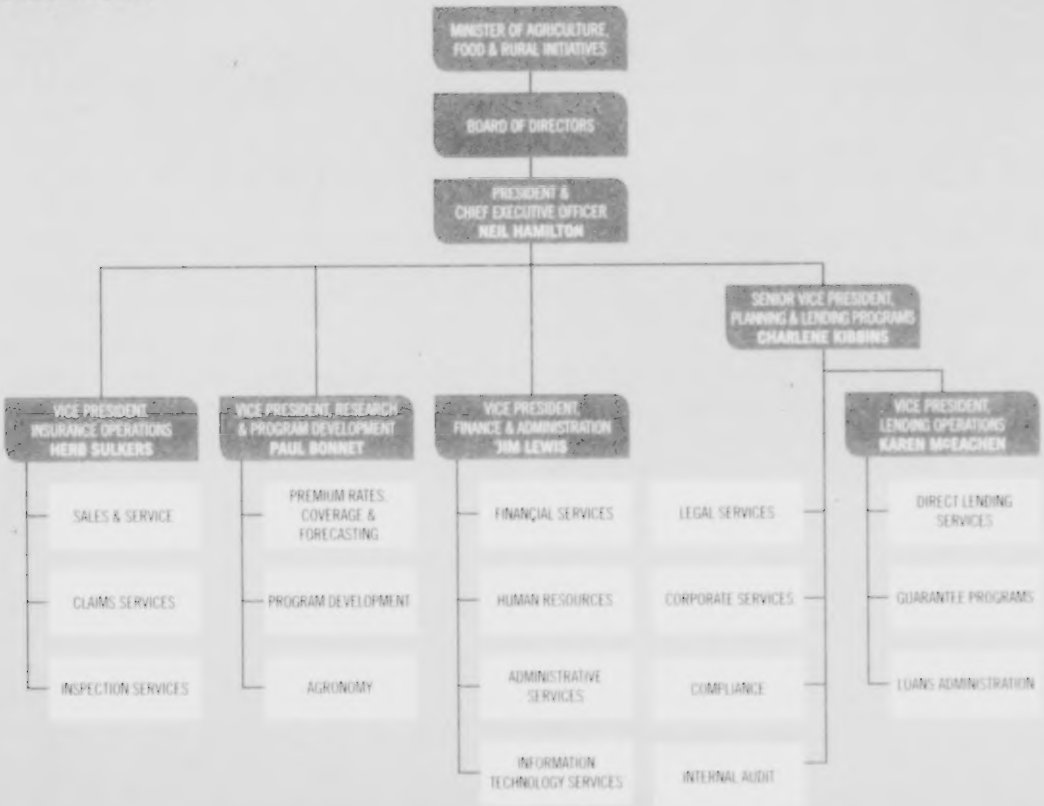
An independent three-member Appeal Tribunal hears disputes between insured producers and MASC, respecting MASC's assessment of loss or damage. The Appeal Tribunal's decisions are final and binding on both parties.

MASC fully supports and participates in the Manitoba government's initiatives under *The Sustainable Development Act*. In its daily operations, MASC encourages activities that reduce, reuse, recycle and recover resources. Activities range from using recycled paper to promoting the use of teleconferencing for meetings.

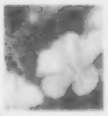
ORGANIZATION CHART

Manitoba Agricultural Services Corporation

As of March 31, 2007



CURRENT PROGRAMS



Agriculture plays a major role in Manitoba's economy. Keeping it vital and healthy is a goal MASC is constantly working towards. Through our unique financial and risk management tools, and administrative skills, MASC actively participates in the development, growth and sustainability of rural Manitoba.

Our Production Insurance and Hail Insurance programs offer protection against losses due to natural perils for a wide range of cereals, oilseeds, special crops and forages. Our financial products have a broad scope, including agricultural loans and loan guarantees, as well as non-agricultural guarantees that assist clients in developing and expanding their businesses.

MASC also provides efficient and effective program administration, and has been involved in delivering a variety of emergency and ad hoc programming on behalf of both levels of government.

Insurance

MASC administers two major insurance programs: Production Insurance and Hail Insurance. This combination allows Manitoba producers to obtain all of their crop production insurance needs from one source. Insurance programs are ongoing, with periodic changes based on input from producers and producer groups, priorities established by MASC's Board of Directors, and direction from the provincial and federal governments, as applicable.

PRODUCTION INSURANCE

Production Insurance provides protection against crop production and quality losses caused by natural perils. These include drought, excess moisture (rainfall or flood), frost, hail, fire, excess heat, wind, wildlife, disease and pests. Causes of loss that are within a producer's control are not covered. Insurance is provided for 56 separate crops. Coverage is also provided for forages during the establishment stage and for the inability to seed land in the spring due to wet conditions.

Producers can select coverage levels of 50, 70 or 80 per cent. Individual crops can be insured at different coverage levels or can be excluded from coverage completely. Coverage is based on a producer's expected (probable) yield, multiplied by the selected coverage level, multiplied by the number of insured acres. If harvested production (adjusted for quality loss) falls below coverage, an indemnity equal to the production shortfall multiplied by the insured dollar value is paid. A reseeding benefit is also available to compensate insured producers that need to reseed crops destroyed by an insurable peril.

Producers have the option of insuring all of their eligible crops under Crop Coverage Plus (CCP). Under this approach, a loss is only payable if the combined production for all crops falls short of the whole farm guarantee. Depending on the potential offset between the crops grown on a farm, CCP provides whole farm coverage of up to 90 per cent for the same premium cost as 80 per cent crop-specific coverage.

Excess Moisture Insurance (EMI) is a basic feature of Manitoba's Production Insurance program. Producers with an active Production Insurance contract automatically receive EMI on all land intended for spring seeding. If producers are unable to seed their land by June 20 due to wet conditions, they receive compensation of $50 per eligible acre, subject to the applicable deductible. A zero deductible option is available. In order to provide additional protection, an EMI buy-up option of $25 per acre was introduced in 2006. The Forage Restoration benefit provides similar protection for tame hay and forage seed crops that are destroyed due to excess spring moisture.

The Fall Frost Insurance pilot program is now available in four test areas, for producers who would like additional protection against early fall frosts. Under this program, producers are paid an indemnity when the temperature at a specified weather station drops to -2°C or lower, at least a week earlier than what is normal for that site.

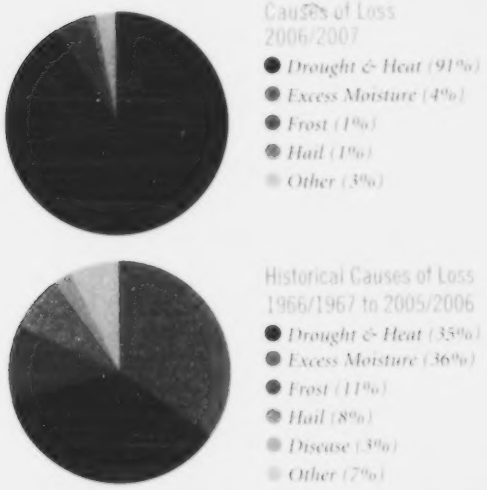
Commercial vegetable producers have the option of protecting their vegetable crops under Vegetable Acreage Loss Insurance. Under this option, an indemnity is paid on a spot-loss basis when the crop is damaged to the point where it is not worth harvesting.

An insurance program is available for the establishment of eligible forage crops. This program provides spot-loss compensation when a forage crop fails to establish in the year of seeding because of natural hazards.

Pasture insurance is available based on the number and type of livestock, using the producer's tame hay production as a proxy for pasture grazing capacity. A producer's pasture insurance payment is based solely on the producer's tame hay payout percentage.

For insurance purposes, Manitoba is divided into 15 areas of similar crop production risk, based on factors such as climate, topography and yield level and variability. The risk areas form the geographic basis for the determination of coverage and premium rates. Depending on the crop, the probable yields that are used to determine coverage are individualized, based on either a producer's yield history relative to the area average, or solely on a producer's individual yield history.

FIGURE 1 CAUSES OF LOSS



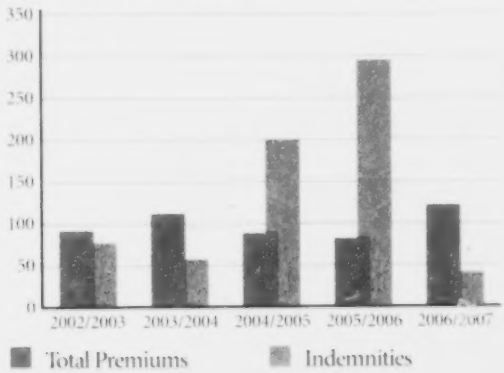
Premium costs are shared between insured producers, the Government of Canada and the Province of Manitoba. For most Production Insurance programs in 2006, the premium for all coverage levels was shared 40 per cent by producers, 36 per cent by Canada and 24 per cent by Manitoba. Exceptions were basic EMI, which had no producer premium, with premiums paid 60 per cent by Canada and 40 per cent by Manitoba; and the Fall Frost Insurance pilot program and the EMI zero deductible option with premiums paid entirely by participating producers. Production Insurance administrative expenses are paid by government, 60 per cent by Canada and 40 per cent by Manitoba.

The Production Insurance loss ratio (loss as a percentage of total premium) for 2006/2007 was 37 per cent. Loss ratios by crop are listed in Table 1. Drought and heat accounted for 91 per cent of losses for 2006/2007. EMI paid out $5.8 million in 2006/2007, which was only 10 per cent of the amount paid out in the previous year.

Although drought and heat ended up being the major cause of loss for 2006/2007, the start of the year was wet with near capacity subsoil moisture and substantial spring rains. This early season moisture generally supported the crops when the weather turned dry in June. Over the entire growing season, precipitation in some areas was only 50 per cent of normal. Figure 1 compares the major causes of loss in 2006/2007 with the historical average. Despite dry, hot conditions, most crops obtained average to above average yields. The early seeded crops generally faired better than the later seeded crops, while the deep-rooted, heat loving crops (ex: sunflowers, corn) generally did the best. The average to above average yields resulted in below average Production Insurance indemnities.

In summary, a total of 9.0 million seeded acres were insured under Production Insurance for 2006/2007. This is up 14 per cent from 2005/2006, primarily due to the high number of unseeded acres in that year. Total premium for 2006/2007 was $117.4 million on $1.03 billion of coverage (liability). Indemnity payments for the year totalled $43.2 million. A summary of Production Insurance total premiums and indemnities for the most recent five years is illustrated in Figure 2.

FIGURE 2 PRODUCTION INSURANCE TOTAL PREMIUMS AND INDEMNITIES ($MILLIONS)



It is noted that $1.1 million of indemnities relating to prior years were paid in 2006/2007. This brought total paid indemnities for the year to $44.3 million. After accounting for interest revenue of $4.6 million and reinsurance premiums of $17.2 million, the Production Insurance net income for 2006/2007 was $60.4 million. This resulted in the Production Insurance reserve increasing from $98.8 million to $159.2 million.

TABLE 1 – SUMMARY OF 2006/2007 PRODUCTION INSURANCE BY CROP

CROP	ACRES INSURED	COVERAGE (000)	TOTAL PREMIUM (000)	INDEMNITIES (000)	LOSS RATIO (%)
Red Spring Wheat	2,464,602	$228,427.3	$18,468.9	$2,223.6	12
Durum Wheat	3,228	252.5	21.7	66.3	306
Extra Strong Wheat	1,494	99.9	10.3	2.1	20
Prairie Spring Wheat	26,883	2,204.9	250.4	44.9	18
Hard White Wheat	199,099	19,892.9	1,799.3	450.4	25
Feed Wheat	30,676	2,443.4	296.8	22.0	7
Winter Wheat	289,590	28,731.4	3,156.2	466.1	15
Barley	654,031	60,187.1	4,865.1	2,174.6	45
Oats	748,335	80,149.0	7,798.2	5,851.0	75
Mixed Grain	4,678	257.7	34.9	31.4	90
Fall Rye	67,895	4,071.4	470.0	154.4	33
Triticale	1,733	68.1	5.9	2.0	34
Canola	2,126,427	241,604.9	21,469.3	6,477.8	30
Flax	333,675	33,297.1	3,498.4	2,506.2	72
Mustard	3,498	301.9	43.4	11.9	27
Oil Sunflowers	39,264	5,976.5	749.6	513.8	69
Non Oil Sunflowers	147,962	29,906.9	4,767.9	1,411.6	30
Buckwheat	14,837	1,144.7	314.4	110.9	35
Grain Corn	132,823	24,828.9	5,419.6	256.6	5
Silage Corn	50,369	11,034.0	750.1	1,010.8	135
Potatoes	66,572	89,307.5	6,283.5	627.4	10
Vegetables*	1,277	3,343.6	170.7	47.5	28
Field Peas	79,707	7,518.6	688.2	106.1	15
Lentils	270	22.3	6.3	0.3	5
Fababeans	8,348	1,049.9	203.0	360.0	177
Dry Edible Beans*	175,454	41,483.7	6,914.0	874.2	13
Soybeans	350,134	39,493.0	7,961.0	2,990.5	38
Tame Hay*	478,162	31,788.7	3,433.9	1,621.9	47
Pasture	–	3,932.8	462.5	263.3	57
Native Hay	33,009	809.7	187.1	199.7	107
Forage Establishment	227,403	7,948.2	1,430.9	646.0	45
Pedigreed Timothy Seed	19,291	1,585.4	283.6	46.5	16
Alfalfa Seed	20,053	2,747.7	562.0	17.7	3
Canaryseed	7,624	642.7	90.9	99.5	110
Annual Ryegrass Seed	6,276	653.6	85.1	60.4	71
Perennial Ryegrass Seed	44,948	7,562.2	1,434.0	27.3	2
Proso Millet	6,234	581.9	107.6	49.6	46
Hemp Grain	30,229	6,709.7	1,063.0	542.0	51
Greenfeed	86,763	5,982.8	648.8	1,417.3	218
Open Pollinated Corn	1,172	121.4	25.8	29.9	116
Fall Frost Program	–	1,370.4	111.8	122.0	109
Unallocated Adjustments**	–	–	–	3,439.1	–
Subtotal	8,984,025	$1,029,536.3	$106,344.1	$37,376.6	35
Excess Moisture Insurance	8,315,176	433,527.1	11,100.2	5,829.2	53
Total			$117,444.3	$43,205.8	37

* Dry Edible Beans include White Pea, Pinto, Black, Kidney, Cranberry, Small Red and Other Dry Edible Beans.
Tame Hay includes Alfalfa, Alfalfa/Grass Mixtures, Grasses and Sweet Clover.
Vegetables include Carrots, Cooking Onions, Rutabagas and Parsnips and the Vegetable Acreage Loss Insurance Program.

** Includes accruals for incomplete claims at year end.

TABLE 1 –

Red Spring Wheat	2,464,602	$228,427.3	$18,468.9	$2,223.6	12
Durum Wheat	3,228	252.5	21.7	66.3	306
Extra Strong Wheat	1,494	99.9	10.3	2.1	20
Prairie Spring Wheat	26,883	2,201.9	250.4	44.9	18
Hard White Wheat	199,089	19,892.9	1,799.3	450.4	25
Feed Wheat	30,676	2,413.4	296.8	22.0	7
Winter Wheat	289,590	28,731.4	3,136.2	466.1	15
Barley	634,031	60,187.1	4,865.1	2,174.6	45
Oats	748,335	80,149.0	7,798.2	5,851.0	75
Mixed Grains	1,678	257.7	34.9	31.4	90
Fall Rye	67,895	4,071.4	470.0	154.4	33
Triticale	1,733	68.1	5.9	2.0	34
Canola	2,126,427	241,604.9	21,469.3	6,477.8	30
Flax	333,675	33,297.1	3,498.4	2,586.2	74
Mustard	3,498	301.9	43.4	11.9	27
Oil Sunflowers	39,264	3,976.3	749.6	513.8	69
Non Oil Sunflowers	147,962	29,906.9	1,767.9	1,311.6	80
Buckwheat	11,837	1,144.7	311.4	110.9	35
Grain Corn	132,823	24,828.9	3,419.6	256.6	8
Silage Corn	30,369	11,034.0	750.1	1,010.8	135
Potatoes	66,375	89,307.3	6,283.3	627.4	10
Vegetables	1,277	3,333.6	170.7	47.5	28
Field Peas	79,787	7,518.6	688.2	100.1	15
Lentils	270	22.3	0.3	0.3	1
Fababeans	8,348	1,049.9	203.0	360.0	177
Dry Edible Beans	175,434	11,483.7	6,914.0	871.2	13
Soybeans	181,434	19,493.0	7,964.0	2,981.5	38
Tame Hay	479,167	41,788.7	3,433.9	1,621.9	47
Peanuts		1,937.8	462.3	263.1	57
Native Hay	83,000	801.7	187.1	109.7	59
Forage Seed/Biomass	37,401	7,948.2	1,430.9	646.0	45
Fodder/Feed Corn/Silage Seed	19,291	1,585.4	583.6	30.3	5
Alfalfa Seed	21,032	2,417.7	463.0	4.5	1
Canaryseed	4,624	434.7	90.9	10.1	110
Mustard Irrigation Seed	6,276	693.6	85.1	10.1	1
Rapeseed Irrigation Seed	11,949	867.3	1,434.0	77.3	
Wheat Seed	30,435	3,851.9	107.3	19.1	18
Forage Seed	31,230	6,398.2	1,000.0	43.0	43
Grass Seed	46,330	3,446.8	648.6	4.7	1
Open Pollinated Corn	4,147	1,131.5	54.5	28.7	110
Tall Fescue Irrigation		1,434.1	11.0	15.4	109
Certified Seed Potatoes				1,439.1	
subtotal	$6,984,833	$1,183,236.1	$96,965.4	$27,476.6	39
Prairie Livestock Insurance	$1,417,479	$85,277.1	$1,000.1	$829.7	59
Total			$113,434.8	$43,293.8	37

A separate policy covering spot-loss hail damage is available to producers enrolled in Production Insurance. Producer premiums fund all of the costs of Hail Insurance, including administrative expenses. Hail premium rates are calculated based on Production Insurance risk areas, rather than by township as is the case for private insurers. Coverage can be selected at any time during the growing season and is available in various dollar amounts depending on the crop. Hail Insurance also provides coverage for losses due to accidental fires.

In 2006/2007, MASC insured 3.3 million acres, with total coverage of $364 million. Premiums prior to discounts were $12.5 million, with indemnities of $4.8 million. The resulting loss ratio (loss as a percentage of premium) was 38 per cent. Figure 3 provides a summary of Hail Insurance premiums and indemnities over the past five years.

After accounting for interest revenue of $1.3 million, reinsurance premium of $0.9 million and administrative expenses of $1.7 million, Hail Insurance had an operating income for the year of $6.2 million. As a result, retained earnings increased from $27.6 million to $33.8 million.

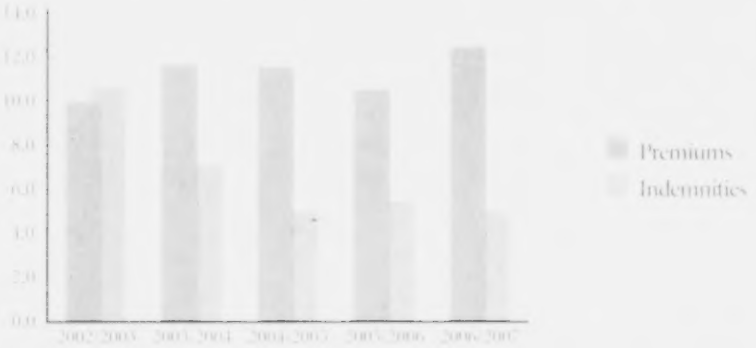


TABLE 2 –

Production Insurance					
Number of producer contracts	10,928	10,813	10,654	10,395	10,220
Insured acres (000)	9,133	9,241	8,702	7,912	8,984
Total coverage ($ millions)	1,201	1,349	1,111	970	1,030
Premiums - producers ($000)	26,032	33,158	30,918	31,354	46,535
Premiums - total ($000)	89,626	112,333	85,092	81,101	117,444
Average coverage level selected (%)	73.4	73.6	73.9	74.7	75.4
Number of claims paid	10,266	8,325	13,706	19,186	7,440
Indemnities paid ($000)	77,268	55,849	200,425	296,186	43,206
Loss to total premium ratio (%)	86	50	236	365	37
Loss to coverage ratio (%)	6	4	18	31	4
Hail Insurance					
Number of producer contracts	3,734	3,947	3,753	3,425	3,895
Insured acres (000)	2,674	2,901	2,803	2,584	3,279
Total coverage ($ millions)	290	318	310	285	364
Premiums, prior to discounts ($000)	9,930	11,514	11,370	10,425	12,547
Number of claims paid	2,157	1,535	1,098	1,241	1,110
Indemnities paid ($000)	10,568	6,894	4,799	5,166	4,755
Loss to premium ratio (%)	106	60	42	50	38

Note: The above statistics are based on the insurance crop year and, as such, may not correspond exactly to the 2006/2007 financial statements.

HAIL INSURANCE

A separate policy covering spot-loss hail damage is available to producers enrolled in Production Insurance. Producer premiums fund all of the costs of Hail Insurance, including administrative expenses. Hail premium rates are calculated based on Production Insurance risk areas, rather than by township as is the case for private insurers. Coverage can be selected at any time during the growing season and is available in various dollar amounts depending on the crop. Hail Insurance also provides coverage for losses due to accidental fires.

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FIGURE 3 – HAIL INSURANCE PREMIUMS AND INDEMNITIES ($ MILLIONS)

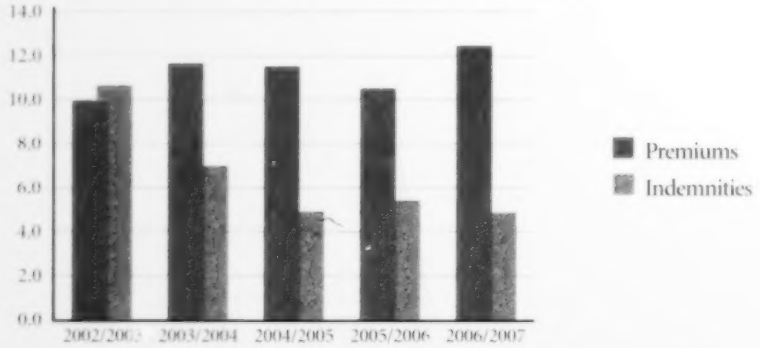

TABLE 2 – FIVE YEAR STATISTICS - INSURANCE

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007
Production Insurance					
Number of producer contracts	10,928	10,813	10,654	10,395	10,220
Insured acres (000)	9,133	9,241	8,702	7,912	8,984
Total coverage ($ millions)	1,201	1,349	1,111	970	1,030
Premiums - producers ($000)	26,032	33,158	30,918	31,354	46,535
Premiums - total ($000)	89,626	112,333	85,092	81,101	117,444
Average coverage level selected (%)	73.4	73.6	73.9	74.7	75.4
Number of claims paid	10,266	8,325	13,706	19,186	7,440
Indemnities paid ($000)	77,268	55,849	200,425	296,186	43,206
Loss to total premium ratio (%)	86	50	236	365	37
Loss to coverage ratio (%)	6	4	18	31	4
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Number of producer contracts	3,734	3,947	3,753	3,425	3,895
Insured acres (000)	2,674	2,901	2,803	2,584	3,279
Total coverage ($ millions)	290	318	310	285	364
Premiums, prior to discounts ($000)	9,930	11,514	11,370	10,425	12,547
Number of claims paid	2,157	1,535	1,098	1,241	1,110
Indemnities paid ($000)	10,568	6,894	4,799	5,166	4,755
Loss to premium ratio (%)	106	60	42	50	38

Note: The above statistics are based on the insurance crop year and, as such, may not correspond exactly to the 2006/2007 financial statements.

Lending

MASC's lending programs are intended to bridge the financing gaps that are not adequately served by other financial institutions. MASC works in co-operation with these institutions to help ensure that Manitoba's agricultural producers and rural businesses have access to credit.

AGRICULTURAL LENDING

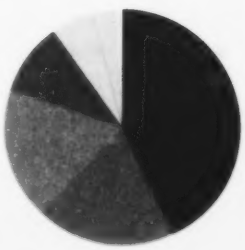
DIRECT LOANS

MASC's Direct Loans provide eligible Manitoba producers with short, intermediate and long-term financing at competitive interest rates with no prepayment penalties. Clients have the flexibility of locking in an interest rate for the full amortization period, or selecting five-year renewable interest rates.

Direct Loans are available for a variety of purposes such as: the purchase of land/buildings, permanent improvements to land/buildings, the purchase of breeding stock, the construction or renovation of production buildings, the purchase of quota, debt consolidation and refinancing.

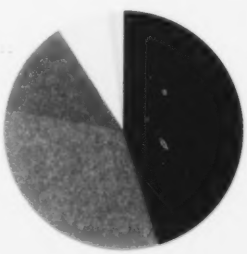
During 2006/2007, 237 Direct Loans were approved, totalling $17.6 million, bringing the total loan portfolio to $182.0 million (3,739 loans). For 2006/2007, Direct Loans were predominantly for land purchases (43 per cent), refinancing (19 per cent) and debt consolidation (18 per cent).

FIGURE 4 – PURPOSE OF DIRECT LOANS



Direct Loan Purpose
2006/2007

- *Land Purchases (43%)*
- *Refinancing (19%)*
- *Debt Consolidation (18%)*
- *Livestock Purchases (10%)*
- *Building Improvements (6%)*
- *Quota Purchases (1%)*
- *Other (3%)*



Historical Direct Loan Purpose
2001/2002 to 2005/2006

- *Land Purchases (45%)*
- *Debt Consolidation/Refinancing (33%)*
- *Livestock Purchases (13%)*
- *Building Improvements (7%)*
- *Quota Purchases (1%)*
- *Other (1%)*

STOCKER LOANS

Stocker Loans provide financing for the purchase of feeder animals or to cover the cost associated with a producer retaining their own feeder cattle.

During 2006/2007, activity was relatively stable from the previous year with 332 Stocker Loans covering 38,912 head for $21.1 million.

BRIDGING GENERATIONS INITIATIVE

The Bridging Generations Initiative was introduced in 2002/2003 as a five-year pilot project with the objective of assisting in the transfer of farm assets between the retiring and next generation producers. The initiative is comprised of the following components:

- Bridging Generations Loans (with associated Management Training Credits)
- Bridging Generations Mortgage Guarantees
- Livestock Herd Establishment Loans
- Land Lease Guarantees
- Lifestyle Transition Loans

During 2006/2007, 89 Bridging Generations Loans were approved totalling $11.9 million, which is a decrease of 11.8 per cent from the previous year, bringing the total loan portfolio to $51.5 million (459 loans).

Bridging Generations Loan clients can earn a Management Training Credit of one per cent of the principal amount of the loan. The maximum credit is $2,500 per year for the first five years of the loan. Participants must complete 25 hours of prescribed training annually. In 2006/2007, Management Training Credits increased to $112,900 from $88,100 in the previous year (an increase of 28 per cent).

YOUNG FARMER REBATE

The Young Farmer Rebate is aimed at reducing the cost of borrowing during the critical start-up stage of an operation. Eligible producers, under the age of 40, can receive a rebate of two per cent on the first $100,000 of principal on Direct Loans and Bridging Generations Loans. The maximum lifetime rebate is $10,000.

In 2006/2007, MASC distributed Young Farmer Rebates totalling $1.2 million. This is a drop of eight per cent from the $1.3 million distributed in 2005/2006. This is partly explained by the fact that MASC's percentage of Direct Loans and Bridging Generations Loans to farmers under 40 years of age dropped from 80 per cent in 2005/2006 to 77 per cent in 2006/2007.

BSE RECOVERY LOANS

BSE Recovery Loans were introduced in August 2003 to provide financial assistance to Manitoba ruminant producers who were suffering from the economic impact of the U.S. border closure due to a case of Bovine Spongiform Encephalopathy (BSE).

Part 1 of the program offered two-year loans of up to $50,000 at a reduced interest rate. Part 1 loans are being rolled into Part 2 loans with terms of either five or 10 years. An additional $25,000 is available under Part 2, bringing the maximum loan to $75,000.

Since the program was introduced, a total of 1,815 BSE Recovery Loans have been approved for $70.2 million. As of March 31, 2007, the total loan portfolio was $61.7 million (1,656 loans) consisting of $11.0 million Part 1 loans and $50.7 million Part 2 loans.

COMPREHENSIVE REFINANCING LOANS

MASC's Comprehensive Refinancing Loans provide assistance to existing clients who are in financial difficulty. The interest rate for the first five years of the loan is set at one half a percentage point below MASC's prevailing five-year rate.

In 2006/2007, MASC approved 31 Comprehensive Refinancing Loans totalling $3.4 million, bringing the total loan portfolio to $12.0 million (137 loans) as of March 31, 2007.

PROPERTY MANAGEMENT

MASC acquires title to property as a result of debt settlement negotiations and foreclosure proceedings. MASC's policy is to return the property to the producer, wherever possible, by either selling or leasing.

During 2006/2007, MASC sold 1,798 acres and acquired no property, leaving an inventory of 5,445 acres as of March 31, 2007. This is down 25 per cent from 7,243 acres held in inventory at the end of 2005/2006.

AGRICULTURAL LOANS WITH MASC GUARANTEES

MASC is committed to meeting the financing requirements of Manitoba's agricultural producers by working in partnership with chartered banks, credit unions and caisse populaires. These partnerships provide agricultural producers with access to credit where it would not otherwise exist, due to factors such as insufficient equity or security, or an unproven project proposal. MASC's guarantees encourage private lenders to participate in areas that they consider to be higher risk.

ENHANCED DIVERSIFICATION LOAN GUARANTEES

Enhanced Diversification Loan Guarantees assist Manitoba producers in diversifying their current operation and/or adding value to the commodities produced on their farm. Guarantees are based on 25 per cent of the principal amount of a loan provided by a participating lender. There is no maximum guarantee.

During 2006/2007, MASC approved 36 applications for loans of $40.9 million. As of March 31, 2007, MASC had 216 active guarantees for loans of $255.2 million.

OPERATING CREDIT GUARANTEES

In order to assist producers in obtaining operating lines of credit, MASC provides a 25 per cent guarantee on operating lines that otherwise would not be approved by private sector lenders. The interest rate on the guaranteed lines of credit cannot exceed the lender's prime rate plus 1.5 percentage points.

During 2006/2007, MASC provided 210 Operating Credit Guarantees on lines of credit totalling $42.1 million. As of March 31, 2007, MASC had 187 active guarantees on lines of credit totalling $37.4 million.

MANITOBA LIVESTOCK ASSOCIATIONS LOAN GUARANTEES

Manitoba Livestock Associations Loan Guarantees provide member producers with the benefit of volume purchasing in terms of feeder and breeder cattle and financing costs. MASC guarantees 25 per cent of a financial institution's loan to a livestock association. The maximum guarantee is $1,250,000 per livestock association, facilitating a maximum loan of $5 million.

As of March 31, 2007, activity remained steady from the previous year, with guarantees on loans of $18.7 million to 10 associations (with a total of 114 active members).

NON-AGRICULTURAL LOANS WITH MASC GUARANTEES

By working in partnership with private lenders, MASC is able to provide more opportunities for rural businesses and facilitate community development and economic growth.

RURAL ENTREPRENEUR ASSISTANCE

In 2005/2006, MASC assumed responsibility for the administration of the Rural Entrepreneur Assistance (REA) program. REA guarantees 80 per cent of a loan made by a participating lender to an eligible small business in rural Manitoba. In March 2007, the maximum loan amount was increased from $100,000 to $200,000, and purchasing existing businesses became an eligible purpose under the program. The interest rate on the guaranteed loan cannot exceed the lender's prime rate plus one percentage point.

During 2006/2007, MASC approved 37 REA guarantees for loans totalling $1.9 million. As of March 31, 2007, MASC had 130 active guarantees for loans of $4.7 million.

It is noted that when REA administration was transferred to MASC, the Province of Manitoba retained the contingent liability associated with the then existing and future REA loan guarantees.

AGRICULTURAL LOANS WITH MASC GUARANTEES

MASC is committed to meeting the financing requirements of Manitoba's agricultural producers by working in partnership with chartered banks, credit unions and caisse populaires. These partnerships provide agricultural producers with access to credit where it would not otherwise exist, due to factors such as insufficient equity or security, or an unproven project proposal. MASC's guarantees encourage private lenders to participate in areas that they consider to be higher risk.

Enhanced Diversification Loan Guarantees assist Manitoba producers in diversifying their current operation and/or adding value to the commodities produced on their farm. Guarantees are based on 25 per cent of the principal amount of a loan provided by a participating lender. There is no maximum guarantee.

During 2006/2007, MASC approved 56 applications for loans of $40.9 million. As of March 31, 2007, MASC had 210 active guarantees for loans of $255.2 million.

In order to assist producers in obtaining operating lines of credit, MASC provides a 25 per cent guarantee on operating lines that otherwise would not be approved by private sector lenders. The interest rate on the guaranteed lines of credit cannot exceed the lender's prime rate plus 1.5 percentage points.

During 2006/2007, MASC provided 210 Operating Credit Guarantees on lines of credit totalling $42.1 million. As of March 31, 2007, MASC had 187 active guarantees on lines of credit totalling $37.4 million.

Manitoba Livestock Associations Loan Guarantees provide member producers with the benefit of volume purchasing in terms of feeder and breeder cattle and financing costs. MASC guarantees 25 per cent of a financial institution's loan to a livestock association. The maximum guarantee is $1,250,000 per livestock association, facilitating a maximum loan of $5 million.

As of March 31, 2007, activity remained steady from the previous year, with guarantees on loans of $18.7 million to 10 associations with a total of 113 active members.

By working in partnership with private lenders, MASC is able to provide more opportunities for rural businesses and facilitate community development and economic growth.

In 2005/2006, MASC assumed responsibility for the administration of the Rural Entrepreneur Assistance (REA) program. REA guarantees 85 per cent of a term loan made by a participating lender to an eligible small business located in Manitoba. In March 2007, the maximum loan amount was increased from $100,000 to $150,000, and purchasing existing businesses by any new eligible purchasers under the program. The maximum rate on the guaranteed loan cannot exceed the lender's prime rate plus one percentage point.

During 2006/2007, MASC approved 17 REA guarantees for loans totalling $1.9 million. As of March 31, 2007, MASC had 139 active guarantees for loans of $14.7 million.

In a related transaction, REA administration was transferred to MASC in the Province of Manitoba's ongoing initiative to further streamline and improve REA administration.

TABLE 9 SUMMARY OF LOAN ACTIVITY INVOLVING MASC

	APPROVALS 2006/2007		APPROVALS 2005/2006		OUTSTANDING AS OF MARCH 31, 2007	
	No.	$M	No.	$M	No.	$M
Agricultural Loans						
Direct Loans	237	$17.6	283	$20.8	3,739	$182.0
Stocker Loans	332	21.1	324	21.9	363	17.1
Bridging Generations Loans	89	11.9	104	13.5	459	51.5
BSE Recovery Loans	5	0.1	68	2.7	1,656	61.7
Comprehensive Refinancing Loans	31	3.4	29	4.5	137	12.0
Enhanced Flood Proofing Assistance Loans [1]	–	–	–	–	266	0.7
Producer Recovery Loans [1]	–	–	–	–	241	5.2
Subtotal	**694**	**$54.1**	**808**	**$63.4**	**6,861**	**$330.2**
Agricultural Loans with MASC Guarantees						
Enhanced Diversification Loan Guarantees [2]	36	$40.9	34	$33.0	216	$255.2 [3]
Operating Credit Guarantees	210	42.1	179	29.2	187	37.4 [3]
MB Livestock Associations Loan Guarantees	11	18.7	10	17.5	10	18.7 [3]
Subtotal	**257**	**$101.7**	**223**	**$79.7**	**413**	**$311.3**
Total Agricultural	**951**	**$155.8**	**1,031**	**$143.1**	**7,274**	**$641.5**
Non-Agricultural Loans with MASC Guarantees						
Rural Entrepreneur Assistance	37	$1.9	39	$1.9	130	$4.7 [4]
Total Non-Agricultural	**37**	**$1.9**	**39**	**$1.9**	**130**	**$4.7** [4]
Grand Total	**988**	**$157.7**	**1,070**	**$145.0**	**7,404**	**$646.2**

1. Prior programming for which outstanding loans are still being administered by MASC.
2. Outstanding loans from the original Diversification Loan Guarantee program are included.
3. The outstanding amounts for loans issued by participating financial institutions resulting from MASC guarantees are shown above. MASC's contingent liability is 25 per cent of the indicated amounts.
4. The outstanding amounts for loans issued by participating financial institutions resulting from guarantees administered by MASC are shown above. The Province of Manitoba's contingent liability is 80 per cent of the indicated amount.

TABLE 4 – AGRICULTURAL LENDING ACTIVITY BY SECTOR – AS OF MARCH 31, 2007

PROGRAM DESCRIPTION	DIRECT LOANS $	LIVESTOCK MARKETING GUARANTEES $	OPERATING CREDIT GUARANTEES $	ENHANCED DIVERSIFICATION LOAN GUARANTEES* $	TOTAL ALL PROGRAMS $
Grains/Oilseeds	40.8	-	48.2	0.0	34.1
Potatoes	0.4	-	9.3	5.5	1.4
Other Crops	3.5	-	7.0	0.5	3.0
Cattle	48.1	100.0	23.9	0.1	40.6
Hogs	3.3	-	7.7	54.9	11.5
Poultry	0.3	-	1.8	7.8	1.5
Dairy	1.5	-	0.5	15.1	3.6
Other	2.1	-	1.6	16.1	4.3
	100.0	100.0	100.0	100.0	100.0
Share of All Programs (%)	80.9	1.1	2.3	15.7	100.0

* Previous Diversification Loan Guarantees are included.

Notes:

1. The table does not include Enhanced Flood Proofing Assistance Loans ($0.7 million) and Rural Entrepreneur Assistance ($4.7 million).
2. In the case of guarantee programs, this table includes only MASC's contingent liability, rather than the loan activity generated by the guarantees.

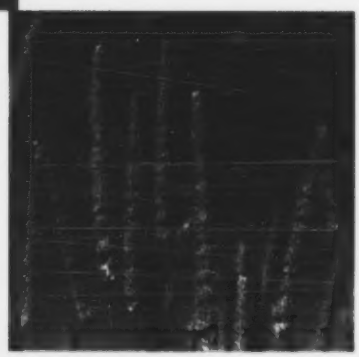


FIGURE 4 – FIVE YEAR STATISTICS – YEAR END LENDING TOTALS

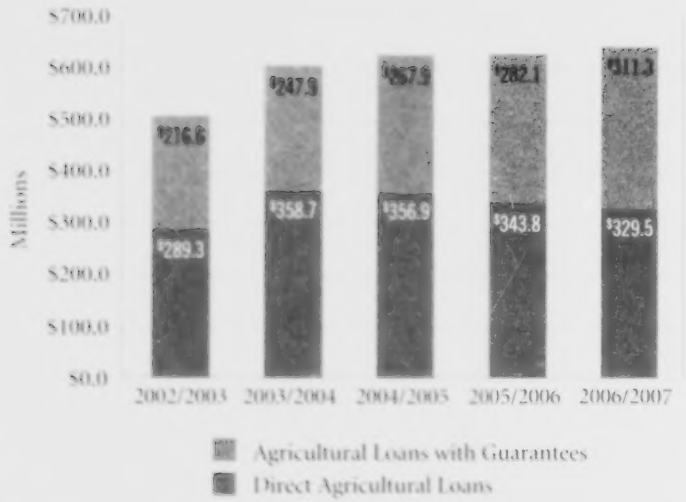


TABLE 4 –

Grains/Oilseeds	40.8	-	48.2	0.0	34.1
Potatoes	0.4	-	9.3	5.5	1.4
Other Crops	3.5	-	7.0	0.5	3.0
Cattle	48.1	100.0	23.9	0.1	40.6
Hogs	3.3	-	7.7	54.9	11.5
Poultry	0.3	-	1.8	7.8	1.5
Dairy	1.5	-	0.5	15.1	3.6
Other	2.1	-	1.6	16.1	4.3
	100.0	100.0	100.0	100.0	100.0
Share of All Programs (%)	80.9	1.1	2.3	15.7	100.0

* Previous Diversification Loan Guarantees are included.

Notes:

1. The table does not include Enhanced Flood Proofing Assistance Loans ($0.7 million) and Rural Entrepreneur Assistance ($4.7 million).
2. In the case of guarantee programs, this table includes only MASC's contingent liability, rather than the loan activity generated by the guarantees.

Other Initiatives

TABLE 5

Big Game	542	727	$647.0	$1,003.9	$173.4	$192.1	$830.4	$1,226.0
Waterfowl	210	233	136.0	423.5	42.4	45.6	578.4	169.1
Livestock Predation	1,458	1,447	432.9	346.9	134.9	113.8	387.8	160.7
Total	2,210	2,407	$1,415.9	$1,804.3	$350.7	$351.5	$1,796.6	$2,155.8

Other Initiatives

MASC has considerable experience in designing and administering support programs for Manitoba producers. In 2006/2007, MASC continued to administer the Wildlife Damage Compensation Program, Farmland School Tax Rebate, Expanded Manitoba Soil Survey, Manitoba Agriculture Weather Service Consortium and Land Lease Option Program. MASC also administered ALUS: An Ecological Goods and Services Research Project – Manitoba in the RM of Blanshard. In addition, MASC provided inspection services to a number of outside agencies.

WILDLIFE DAMAGE COMPENSATION PROGRAM

The Wildlife Damage Compensation program reduces the financial loss suffered by producers due to damage caused by migratory waterfowl, big game and livestock predators. Producers are expected to take reasonable steps to prevent wildlife damage and predator attacks. Compensation is based on 80 per cent of lost production. Program payments and administration are funded 60 per cent by the Government of Canada and 40 per cent by the Province of Manitoba.

Wildlife Damage Compensation program payments and the related administrative expenses totalled $1.8 million in 2006/2007. Compensation was down 22 per cent from the previous year. Experience for the three causes of damage is shown in Table 5.

TABLE 5 –

Big Game	542	727	$647.0	$1,033.9	$173.4	$192.1	$820.4	$1,226.0
Waterfowl	210	233	336.0	423.5	42.4	45.6	378.4	469.1
Livestock Predation	1,458	1,147	432.9	346.9	154.9	113.8	587.8	460.7
Total	2,210	2,107	$1,415.9	$1,804.3	$370.7	$351.5	$1,786.6	$2,155.8

FARMLAND SCHOOL TAX REBATE

In 2005/2006, MASC assumed responsibility for the administration of the Farmland School Tax Rebate. The 2006 program provided a rebate of 60 per cent of the school tax paid on Manitoba farmland. This is an increase from 2005 when the rebate was 50 per cent. Landowners have three years to apply for their rebates. The Manitoba government pays the full cost of the program.

As of March 31, 2007, MASC had paid 30,079 applications for 2006 rebates of $21.6 million. In addition, in 2006/2007 MASC processed 4,071 applications for 2005 rebates of $1.7 million.

TABLE 6 – FARMLAND SCHOOL TAX REBATE – AS OF MARCH 31, 2007

	2006 REBATE (60%)			2005 REBATE (50%)		
		APPLICATIONS	AMOUNTS		APPLICATIONS	AMOUNTS
Fiscal Year	**Received**	**Paid**	**Paid**	**Received**	**Paid**	**Paid**
2006/2007	30,362	30,079	$21,603,512	3,794	4,071	$1,737,203
2005/2006	–	–	–	30,309	29,859	$15,860,100
Total	30,362	30,079	$21,603,512	34,103	33,930	$17,597,303

EXPANDED MANITOBA SOIL SURVEY

In April 2005, MASC on behalf of Manitoba Agriculture, Food and Rural Initiatives (MAFRI) assumed responsibility for the administration of the Expanded Manitoba Soil Survey. This program is funded through the Manitoba Association of Agricultural Societies using money from the Canada-Manitoba Agri-Food Research and Development Initiative. The goal of the program is to increase Manitoba's soil survey capacity in order to facilitate sustainable crop and livestock development initiatives. Total funds of $216,143 were spent on this program in 2006/2007.

MANITOBA AGRICULTURE WEATHER SERVICE CONSORTIUM

In March 2005, MASC on behalf of MAFRI, assumed responsibility for the administration of the Manitoba Agriculture Weather Service Consortium. This program is funded through the Manitoba Association of Agricultural Societies using money from the Canada-Manitoba Agri-Food Research and Development Initiative. The goal of the program is to establish a modest network of weather stations enabling the provision of online access to weather related databases and products. Total funds of $129,319 were spent on this program in 2006/2007.

ALUS: AN ECOLOGICAL GOODS AND SERVICES RESEARCH PROJECT – MANITOBA

In December 2005, MASC assumed responsibility for the administration of ALUS: An Ecological Goods and Services Research Project – Manitoba in the RM of Blanshard. The goal of this project is to test and evaluate the concept of paying producers for specified land management practices that are determined to produce/maintain environmental benefits. Funding for producer payments is channelled through Keystone Agricultural Producers (KAP) to MASC. KAP received funding for this purpose from the Advancing Canadian Agriculture and Agri-Food (ACAAF) program and Delta Waterfowl. MASC's administration costs of $81,978 were paid through funding from Covering New Ground ($49,500) and the Canada-Manitoba Agri-Food Research and Development Initiative ($32,478). Total funds of $294,211 were spent on producer payments in this program in 2006/2007.

LAND LEASE OPTION PROGRAM

From 1974 to 1977, farmland was purchased from willing sellers and leased to qualifying producers. As at March 31, 2007, 14 long-term leases on 4,649 acres remain in place.

INSPECTION SERVICES

MASC supports Manitoba's agricultural sector by providing inspection services at a reasonable cost. In 2006/2007, MASC provided forage establishment inspections for the Greencover Canada Program and conducted audits for the Canadian Wheat Board and the ALUS program. Production losses were assessed on windmill construction sites and local vegetable production certificates were issued for eligible producers at the St. Norbert Farmers Market. General insurance companies also subcontracted MASC to conduct loss appraisals on crops eligible for claims under their policies. In addition, MASC began training selected staff on Hazard Analysis Critical Control Points (HACCP) standards so that MASC can be a qualified agency to conduct certification inspections in Manitoba.

PERFORMANCE INDICATORS

PRODUCTION INSURANCE

The insured area of annual crops and forages increased to about 9.0 million acres in 2006/2007 from 7.9 million in 2005/2006 (the lower number of insured acres in 2005/2006 was mainly due to excess moisture issues). It is noted, however, that 9.0 million acres was about 300,000 acres below the budgeted amount. The shortfall was mainly due to the inability to seed 145,000 acres due to excess moisture and a reduction in participation in the tame hay program. The target for the average coverage level selected by insured producers was set at the 2005/2006 level of 74.7 per cent, however, with a larger percentage of insured producers selecting 80 per cent coverage in 2006/2007, the average increased to 75.4 per cent.

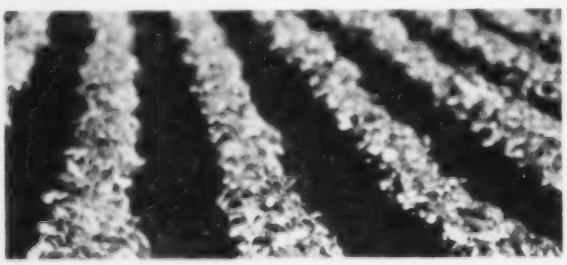
Total liability for 2006 was at the budgeted amount of $1.05 billion, up eight per cent from the previous year. At $43.2 million and only 7,440 claims, 2006 indemnities were significantly below the break-even budget amount. Indemnities in 2006/2007 were the lowest in the past five years.

HAIL INSURANCE

Insured acreage increased to 3.3 million and liability to $364 million in 2006/2007. These amounts exceed the budget targets by 0.9 million acres and $95 million of liability. Low hail losses in 2006 resulted in a profit of $6.2 million.

AGRICULTURAL LENDING

During 2006/2007, 689 loans totalling $54.0 million were approved (excluding BSE Recovery Loans). This amounts to decreases of seven per cent in the number of loans and 11 per cent in the value of loans compared to the previous year. The 2006/2007 actuals were below the loan number target by eight per cent and below the loan amount target by seven per cent, which is primarily due to the reduced demand for debt consolidation and refinancing loans as producers begin to show recovery from issues such as BSE and poor commodity prices.



AGRICULTURAL GUARANTEES

A total of 246 guarantees on $83 million of loans ($20.8 million of contingent liability) were approved through the Enhanced Diversification Loan Guarantee program and the Operating Credit Guarantee program in 2006/2007. This is an increase from 213 guarantees on $62.2 million in loans ($15.6 million of contingent liability) in 2005/2006. The target for the two guarantee programs was 210 guarantees for $66.0 million in loans ($16.5 million contingent liability). The actual result was 17 per cent above target in terms of the number of loans and 26 per cent above target in terms of the total amount of loans. The 17 per cent increase in the number of loans is primarily due to increased Operating Credit Guarantee program activity. Due to financial stresses in the agricultural industry, lenders participated in the program at greater levels than anticipated.

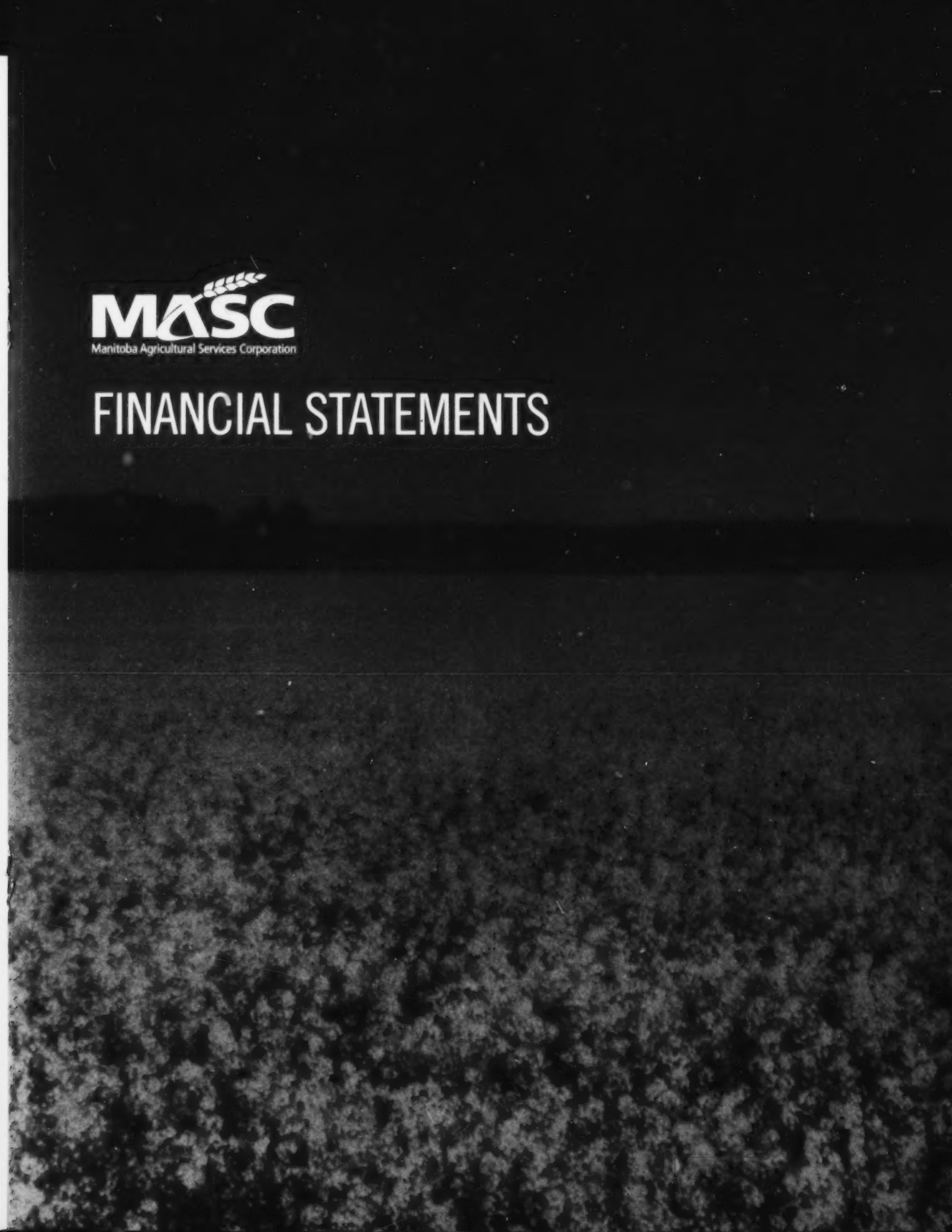
The objective of maintaining the number of associations participating in the Manitoba Livestock Associations Loan Guarantee program was achieved with 10 associations participating in 2006/2007 and 2005/2006. The amount of such loans outstanding as of March 31, 2007 was above target by four per cent.

NON-AGRICULTURAL GUARANTEES

Rural Entrepreneur Assistance (REA) activity remained relatively stable compared to the previous year. Thirty-seven guarantees totalling $1.9 million were approved in 2006/2007, compared to 39 guarantees totalling $1.9 million in 2005/2006. The target was to increase REA activity by 15 loans and $1.5 million compared to the previous year. The target was not achieved due to program enhancements not being implemented until late in the fiscal year.

ADMINISTRATION

MASC's overall administrative expenses totalled $17.7 million, or $2.3 million under the budget for 2006/2007. This result was mainly due to a reduction in adjusting and other claim related expenses due to claims being significantly lower than budgeted. In addition, salaries and benefits were lower than budgeted due to a postponement of hiring until the implementation of MASC's Strategic Plan.



FINANCIAL STATEMENTS

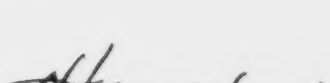
MASC
Manitoba Agricultural Services Corporation

RESPONSIBILITY FOR FINANCIAL STATEMENTS

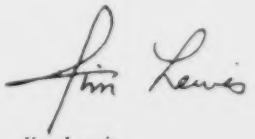
The management of the Manitoba Agricultural Services Corporation is responsible for the integrity, objectivity and reliability of the financial statements, accompanying notes and other financial information in the annual report.

Management maintains internal control systems to ensure that transactions are accurately recorded in accordance with established policies and procedures. In addition, certain best estimates and judgements have been made based on a careful assessment of the available data.

The financial statements and accompanying notes are examined by the Auditor General for Manitoba, whose opinion is included herein. The Auditor General has access to the Board of Directors, with or without management present, to discuss the results of their audit and the quality of financial reporting of the corporation.



Neil Hamilton
President &
Chief Executive Officer



Jim Lewis
Vice President,
Finance & Administration

June 15, 2007

OFFICE OF THE
AUDITOR GENERAL
MANITOBA

AUDITORS' REPORT

To the Legislative Assembly of Manitoba
To the Board of Directors of Manitoba Agricultural Services Corporation

We have audited the balance sheet of the Manitoba Agricultural Services Corporation as at March 31, 2007, the statements of operations and funds retained and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Winnipeg, Manitoba
June 15, 2007

500 - 330 Portage Avenue Winnipeg, Manitoba R3C 0C4 office: (204) 945-3790 fax: (204) 945-2169
www.oag.mb.ca

BALANCE SHEET

For the Year Ended March 31, 2001 (in thousands)

	2001	2000
ASSETS:		
Cash	$ 1,638	$ —
Investments (Note 4)	193,153	133,730
Accounts receivable (Note 5)	22,696	13,483
Prepaid expenses	93	126
Loans receivable (Note 6)	100,419	113,623
Real estate (Note 7)	500	1,161
Property and equipment (Note 12)	93	93
	$ 319,313	$ 263,214
LIABILITIES AND FUNDS RETAINED:		
Bank indebtedness	$ —	$ 1,701
Reinsurance premiums payable (Note 10 (c))	3,056	1,099
Claims payable (Note 11)	12,411	10,437
Accounts payable and accrued liabilities (Note 8)	11,138	11,227
Provision for losses on guaranteed loans (Note 6)	12,233	11,136
Advances from the Province of Manitoba (Note 13)	126,476	112,825
Deferred revenue (Note 10)	305	331
Funds retained	153,694	82,068
	$ 319,313	$ 263,214

Approved by the Board:

John S. Plohman
Chair

Freida Krpan
Vice Chair

STATEMENT OF OPERATIONS AND FUNDS RETAINED

For the Year Ended March 31, 2007 (in thousands)

	2007	2006
REVENUE:		
Insurance premiums (Note 3)		
Insured producers	$ 38,848	$ 41,445
Government of Canada	42,307	29,710
Province of Manitoba	28,336	19,800
	129,691	90,955
Interest from loans	20,444	20,547
Other contributions – Government of Canada	6,894	9,191
Other contributions – Province of Manitoba	36,301	32,483
Investment income	6,782	7,259
Real estate and other income	1,040	1,344
Reinsurance recoveries (Note 4 (b))	118	89,470
Total revenue	201,270	251,049
EXPENDITURE:		
Insurance indemnities and compensation payments (Note 9)	90,494	804,347
Reinsurance premiums (Note 4 (b), 4)	18,318	12,877
Interest on borrowed funds	19,651	20,389
Bad debt expense and guarantee/loan losses (Note 4 (b), 5)	1,688	1,694
Young farmer incentives	1,338	1,400
Farmland school tax rebate payments	26,034	20,614
Other program payments	294	689
Administrative expenses (Schedule 1)	17,695	19,678
Total expenditure	135,282	381,688
Income (loss) for the year	65,988	(130,639)
Funds retained, beginning of year	87,691	218,330
Funds retained, end of year	$ 153,679	$ 87,691

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2007 (in thousands)

	2007	2006
Cash provided by (used for)		
Operating activities		
Income (loss) for year		
Income (loss) before investment interest revenue	$ 59,206	$ (137,898)
Investment interest revenue	6,782	7,259
	65,988	(130,639)
Items not involving cash		
Change in provisions and allowances	478	(825)
Gain on disposal of real estate	(145)	(134)
Amortization of property and equipment	122	146
Loans disbursed	(69,213)	(83,347)
Loan principal received	51,703	113,607
Changes in:		
Accounts receivable	(9,612)	27,967
Prepaid expenses	33	6
Loans receivable	32,223	(16,600)
Reinsurance premiums payable	1,957	(1,750)
Claims payable	6,921	67
Accounts payable and accrued liabilities	(205)	462
Cash provided by (used for) operating activities	80,977	(91,240)
Investing activities		
Sale (purchase) of investments	(14,356)	126,022
Net proceeds on sale of real estate	583	342
Purchase of property and equipment	(76)	(139)
Cash provided by (used for) investing activities	(13,849)	126,225
Financing activities		
Advances repaid to the Province of Manitoba	(16,382)	(21,657)
Deferred revenue	(106)	(6)
Cash used for financing activities	(16,488)	(21,663)
Net increase in cash and equivalents	50,640	13,322
Cash and equivalents, beginning of year	37,258	43,936
Cash and equivalents, end of year	87,898	57,258
Cash and equivalents comprised of the following:		
Investments	193,434	145,780
Investments with terms greater than 90 days	(101,004)	(88,678)
Investments with terms of 90 days or less	92,430	57,102
Cash (bank indebtedness)	(4,532)	(1,844)
	$ 87,898	$ 57,258

NOTES TO FINANCIAL STATEMENTS

as at March 31, 2007 (tabular amounts in thousands of dollars)

The Manitoba Agricultural Credit Corporation (MACC) was established under *The Agricultural Credit Corporation Act*. The Manitoba Crop Insurance Corporation (MCIC) was established under *The Crop Insurance Act*. As a result of the proclamation of *The Manitoba Agricultural Services Corporation Act*, C.C.S.M. c.A25 on September 1, 2005, MACC and MCIC were amalgamated to form the Manitoba Agricultural Services Corporation (MASC) and the legislation establishing the former corporations was repealed.

MASC provides lending, insurance and other programs and services. Its core programs include direct loans to agriculture producers, loan guarantees, Production Insurance and Hail Insurance. It also delivers the Wildlife Damage Compensation program, Farmland School Tax Rebate and other programs and services for the agricultural industry.

MASC's financial statements are presented in accordance with Canadian generally accepted accounting principles.

Under the provisions of the applicable legislation, MASC delivers insurance, lending and other programs and services. For financial accounting purposes, all programs are treated as separate operations and are accounted for separately.

Investments are carried at cost, which approximates market value. Funds in excess of operational needs are invested with the Province of Manitoba, in accordance with Section 32(1) of *The Manitoba Agricultural Services Corporation Act*.

Property and equipment are reported at cost less accumulated amortization. Property and equipment are amortized on a straight-line basis over their estimated useful life, as follows:

Furniture and Equipment	10 years
Computer Hardware	4 years
Computer Software	4 years
Major Software Development	8 years
Leasehold Improvements	remaining term of lease

MASC employees are pensionable under *The Civil Service Superannuation Act*.

Effective April 1, 1998, the former Manitoba Crop Insurance Corporation (MCIC) became a fully funded matching employer. Upon the formation of the Manitoba Agricultural Services Corporation (MASC), the former MCIC employees' current pension obligations to the Civil Service Superannuation Board (CSSB) continued to be matched by MASC.

Prior to amalgamation, the Manitoba Agricultural Credit Corporation (MACC) did not match employees' current service contributions, and instead contributed 50 per cent of the pension disbursements made to retired employees. Effective September 1, 2005, former MACC employees' current pension contributions are matched on a go-forward basis. MASC accrues an unfunded provision for the liability for the employer's share of the former MACC's employees prior to September 1, 2003, including future cost of living adjustments, based on an actuarial valuation. Details of the provision for the pension benefits are outlined in Note 17.

As a matching employer, MASC discharges its pension liability on a current basis and, therefore, has no additional pension obligation. MASC's matching contributions for 2006/2007 totalled $316,363.

MASC employees are entitled to vacation and severance pay in accordance with the terms of the Collective Agreements and corporate policy. The liabilities for vacation and severance pay are recorded based on MASC's best estimates.

The provision for impaired loans is determined annually, through a review of individual accounts. The provision represents management's best estimate of probable losses on receivables. Where circumstances indicate doubt as to the ultimate collectability of principal or interest, specific provisions are established for individual accounts. These accounts are valued at the lower of their recorded value or the estimated net realizable value of the security held for the accounts. In addition to the provision for impaired loans identified on an individual loan basis, MASC establishes a further provision representing management's best estimate of additional probable losses in the entire loan portfolio.

The provisions for losses on loan guarantees are determined annually by a review of each guarantee program. The provisions represent management's best estimate of probable claims against the guarantees. Such provisions are intended to cover principal, accrued and unpaid interest, and any additional recoverable amounts.

Current year provisions for impaired loans and guarantees are charged as an expenditure to bad debt expense and guaranteed loan losses. Actual accounts that have been written off are charged to the appropriate provision.

Real estate that is acquired through foreclosure and voluntary transfers of titles in the settlement of loans is recorded at the lower of the recorded value of the loan or the appraised value of the real estate at acquisition date. Real estate is reported net of a provision for a decline in real estate values.

Real estate that was acquired for the purpose of long-term lease to producers through the land lease program is recorded at cost.

MASC recognizes as revenue all premiums earned on insurance policies in force during the year.

The Canada-Manitoba Production Insurance Agreement, which is Annex B to the Canada-Manitoba Implementation Agreement, provides for the cost sharing of the premiums under the Production Insurance program. Premiums for crop loss are shared between the insured producer (40 per cent), the Government of Canada (36 per cent) and the Province of Manitoba (24 per cent). For the previous fiscal year, premiums for crop loss coverage at the 50 per cent level were shared between insured producers (30 per cent), the Government of Canada (42 per cent) and the Province of Manitoba (28 per cent); and premiums for coverage above the 50 per cent level were shared between insured producers (45 per cent), the Government of Canada (33 per cent) and the Province of Manitoba (22 per cent).

Inaddition to the general premiums sharing provisions noted above, alternative premium sharing arrangements apply for basic Excess Moisture Insurance (EMI), the EMI Zero Deductible Option and the Fall Frost Insurance Pilot program.

Identifiable administrative expenses for all of the programs administered by MASC are charged directly to the specific program. Where the direct charging of administrative expenses to specific programs is not possible, these expenses are allocated to each program on a basis approved by MASC's Board of Directors.

The federal-provincial agreement relating to the Production Insurance program referred to in Section (1) of this note, stipulates that administrative expenses, net of any administrative revenues, will be shared by the Government of Canada (60 per cent) and the Province of Manitoba (40 per cent).

The preparation of MASC's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results may differ from these estimates.

MASC's financial instruments consist of cash, accounts receivable, loans receivable, investments, accounts payable and advances from the Province of Manitoba.

Credit Risk:
MASC provides direct loans to clients in the normal course of operations. Credit reviews of individual clients are carried out on a continuing basis, thereby providing estimated provisions for contingent credit losses.

Interest Rate Risk:
Interest rate risk is the risk to MASC's earnings that arises from fluctuations in interest rates. During the year ended March 31, 2007, MASC did not utilize derivative financial instruments to reduce its exposure to interest rate risk.

Fair Value of Financial Instruments:
Financial instruments are valued at cost, with adjustments for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to cash, investments, other receivables, accounts payable, and accrued liabilities. Fair value of loans receivable and advances from the Province of Manitoba are disclosed in their respective notes.

MASC administers the Wildlife Damage Compensation program, which compensates producers for 80 per cent of damage to agricultural crops and products caused by waterfowl or wildlife (big game animals) and the injury or death of domestic livestock caused by natural predators. Compensation and all administrative expenses are shared by the Government of Canada (40 per cent) and the Province of Manitoba (40 per cent).

In April 2005, MASC became responsible for the administration of the Farmland School Tax Rebate program. The purpose of the program is to assist Manitoba farmland owners by providing a rebate of 60 per cent of the school tax paid on farmland in 2006. The rebate was increased from 50 per cent in 2005. The program provides a three-year time frame for claiming rebates. Recorded rebate payments of $26,034,000 include a provision of $4,331,000 for 2006 rebates, which have not yet been applied for. In addition, a provision of $3,016,000 remains for 2003 rebates. The Province of Manitoba pays for the full cost of the program.

Manitoba Agriculture Weather Service Consortium

In March 2005, MASC became responsible for the administration of the Manitoba Agriculture Weather Service Consortium. The purpose of this initiative is to establish a network of weather stations, which will provide the regional weather data that is required to forecast pest and plant disease outbreaks and moisture conditions for crop production. A total of $129,888 in administrative expenses was incurred for the year ended March 31, 2007 (2006 - $163,000). Funding for this project was provided to MASC by the Manitoba Association of Agricultural Societies.

Expanded Manitoba Soil Survey

In April 2005, MASC became responsible for the administration of the Expanded Manitoba Soil Survey project. The purpose of this project is to provide detailed soil surveys in selected rural municipalities to facilitate sustainable agricultural development. A total of $216,000 in administrative expenses was incurred for the year ended March 31, 2007 (2006 - $36,000). Funding for this project was provided to MASC by the Manitoba Association of Agricultural Societies.

ALUS: An Ecological Goods and Services Research Project – Manitoba

In December 2005, MASC became responsible for the administration of ALUS: An Ecological Goods and Services Research Project – Manitoba in the RM of Blanshard. ALUS stands for Alternative Land Use Services. The goal of this project is to test and evaluate the effects of paying producers for specified land management practices that are determined to produce environmental benefits. Producers' payments totalled $41,000 and were funded by Ducks Unlimited Canada, Agricultural Producers Association of Manitoba (APAM), Agricultural Producers Association of Saskatchewan (APAS), Assiniboine Watershed Initiative, Manitoba Conservation, Manitoba Eco-Network, Manitoba Habitat Heritage Corporation, Manitoba Hydro, Manitoba Water Stewardship, Nature Conservancy of Canada, Prairie Farm Rehabilitation Administration, Prairie Habitat Joint Venture, Rural Development Institute, Saskatchewan Environment, Saskatchewan Watershed Authority, Turtle Mountain Conservation District and World Wildlife Fund Canada. A total of $67,000 in administrative expenses was incurred for the year ended March 31, 2007 (2006 - $50,000), which was partly funded by the Manitoba Association of Agricultural Societies ($30,000) and the Province of Manitoba (Cropping Systems Demonstration Initiative) ($19,500).

MASC's investments as of March 31, 2007 consist of the following:

INVESTMENT MATURITY TERMS	AVERAGE INTEREST RATE	PRODUCTION INSURANCE PROGRAM	HAIL INSURANCE PROGRAM	FARMLAND SCHOOL TAX REBATE PROGRAM	2007 TOTAL	2006 TOTAL
1 year	4.087%	$ 146,922	23,538	3,294	$ 173,754	$ 140,730
2 years	3.362%	8,300	2,500	–	10,800	19,200
3 years	3.992%	–	2,700	–	2,700	10,800
4 years	3.874%	–	2,700	–	2,700	2,700
5 years	4.180%	–	1,500	–	1,500	2,300
	4.043%	$ 155,222	32,938	3,294	$ 193,454	$ 145,730

MASC's accounts receivable as of March 31, 2007 consist of the following:

	PRODUCTION INSURANCE PROGRAM	LENDING PROGRAMS	HAIL INSURANCE PROGRAM	FARMLAND SCHOOL TAX REBATE PROGRAM	OTHER PROGRAMS	2007 TOTAL	2006 TOTAL
Insured producers	$ 2,694	–	761	1	–	$ 3,456	$ 883
Government of Canada	5,816	–	–	–	183	5,999	1,949
Province of Manitoba	9,105	–	–	2,540	–	11,645	8,409
Accrued investment interest	935	–	247	33	–	1,215	860
Reinsurance receivable	269	–	–	–	–	269	1,105
Other	85	18	–	–	9	112	247
	$ 18,904	18	1,008	2,574	192	$ 22,696	$ 13,453

MASC's loans receivable as of March 31, 2007 consist of the following:

		2007	2006
Amounts are due over the following terms:			
1 year	Accrued interest	$ 9,882	$ 10,221
	Arrears	16,668	33,141
	Prepayments	(9,880)	(10,648)
	Regular instalments	43,221	52,620
		59,891	85,334
2 years	Regular instalments	30,710	29,709
3 years	Regular instalments	31,221	26,841
4 years	Regular instalments	29,512	26,236
5 years	Regular instalments	23,847	23,118
Over 5 years	Regular instalments	154,989	153,643
		330,170	344,881
Less: Provisions for impaired loans *(Note 10)*		29,751	30,258
		$ 300,419	$ 314,623

The approximate fair value of loans receivable as of March 31, 2007 is $320,380,000 (2006 – $335,067,200). Fair value is based on expected future cash flows discounted by current interest rates for loans with similar terms and credit risk.

All loans have fixed rates, with an average yield breakdown as follows:

	REGULAR PROGRAM LOANS	SPECIAL ASSISTANCE LOANS	TOTAL LOANS
4.0% and lower	$ 2	$ 12,417	$ 12,419
4.01% to 5.0%	1,714	11,394	13,108
5.01% to 6.0%	20,713	40,916	61,629
6.01% to 7.0%	150,431	14,007	164,438
7.01% to 8.0%	72,463	772	73,235
More than 8.0%	5,258	81	5,339
	$ 250,583	$ 79,587	$ 330,170

*Includes BSE Recovery Producer Recovery Flood Proofing Assistance and Comprehensive Bioindustry Program loans

	AVERAGE INTEREST RATE	REGULAR PROGRAM LOANS	SPECIAL ASSISTANCE LOANS	TOTAL LOANS
Less than 5 years	5.763%	$ 47,414	$ 58,223	$ 105,637
5 to 10 years	6.645%	60,809	14,165	74,974
10 to 15 years	6.839%	73,674	4,393	78,067
15 to 20 years	6.895%	53,448	2,575	56,023
20 to 25 years	6.706%	15,238	231	15,469
		$ 250,583	$ 79,587	$ 330,170

[illegible] Program, Purchase Program, Fixed Funding Assistance and Complementary Refinancing Program Loans

	REGULAR PROGRAM LOANS	SPECIAL ASSISTANCE LOANS	TOTAL LOANS
Beginning provision balance	$ 13,626	$ 14,632	$ 30,258
Loans written off	(687)	(42)	(729)
Provision (recovery)	576	(354)	222
Ending provision balance	$ 13,515	$ 14,236	$ 29,751

[illegible] Program, Purchase Program, Fixed Funding Assistance and Complementary Refinancing Program Loans

Based on a review of the current real estate portfolio, MASC has established a provision of $14,000 (2006 – $37,000) to provide for future declines in real estate values. This provision represents management's best estimate of probable losses on sale of real estate.

	2007	2006
Real estate book value	$ 820	$ 1,218
Provision for decline in real estate value	(14)	(57)
	$ 806	$ 1,161

	2007		2006	
	COST	ACCUMULATED AMORTIZATION	COST	ACCUMULATED AMORTIZATION
Furniture and equipment	$ 359	$ 177	$ 404	$ 191
Computer hardware	356	318	449	389
Computer software	182	105	125	86
Major software development	2,980	2,907	2,907	2,895
Leasehold improvements	298	290	298	271
	$ 4,110	$ 3,797	$ 4,183	$ 3,832
Net book value		$ 313		$ 351

In accordance with the terms of the reinsurance agreement between the Government of Canada and the Province of Manitoba, the two levels of government maintain separate reinsurance accounts. MASC pays reinsurance premiums to the Crop Reinsurance Fund of Canada for Manitoba, and to the Crop Reinsurance Fund of Manitoba, based on the amount of premiums collected and the cumulative financial balance of the program. When indemnities paid to insured producers exceed the funds retained by MASC, after accounting for private sector reinsurance recoveries, transfers are made from the reinsurance funds to MASC. Interest is neither credited nor charged to the respective reinsurance funds by the Government of Canada or the Province of Manitoba. Surpluses in the Crop Reinsurance Fund of Canada for Manitoba and the Crop Reinsurance Fund of Manitoba are held by the Government of Canada and the Province of Manitoba, respectively.

	CROP REINSURANCE FUND OF CANADA FOR MANITOBA		CROP REINSURANCE FUND OF MANITOBA	
	2007	2006	2007	2006
Opening surplus (deficit)	$ 831	$ 427	$ 22,850	$ 22,446
Current year premium contributions (net)*	587	404	587	404
Net book value	$ 1,418	$ 831	$ 23,437	$ 22,850

* Current year premium contributions are presented net of recoveries of an administrative nature previously accounted.

MASC entered into a one-year private sector reinsurance agreement for the Production Insurance program in addition to the financial protection provided by the federal-provincial reinsurance agreement noted above. Through the private sector reinsurance agreement, 23 reinsuring companies assume 90 per cent of losses (including deemed loss adjustment expenses) from 15 to 23 per cent of Production Insurance liability (coverage). Reinsurance premiums were $16,013,000 (2006 – $11,147,000). Private sector reinsurance recoveries totalled $118,000 (2006 – $89,470,000), which was for prior year reinsurance claims.

MASC entered into a one-year private sector reinsurance agreement for the Hail Insurance program. Through the agreement, 15 reinsuring companies assume 90 per cent of hail insurance losses (including loss adjustment expenses) from 15% to 200 per cent of gross premium. Reinsurance premiums were $881,000 (2006 – $932,000). There were no reinsurance recoveries in 2007.

Claims payable of $12,411,000 (2006 – $19,332,000) includes: a provision of $3,900,000 (2006 – $9,270,000) for the Production Insurance program, which represents the liability for unpaid claims and the over-winter deterioration of unharvested crops; a provision of $7,447,000 (2006 – $4,754,000) for outstanding Farmland School Tax Rebate payments; and a provision of $274,000 (2006 – $381,000) for the Wildlife Damage Compensation program. The balance represents actual claims payable.

Accounts payable at March 31, 2007 include the following:

	PRODUCTION INSURANCE PROGRAM	LENDING PROGRAMS	WILDLIFE DAMAGE COMPENSATION PROGRAM	OTHER PROGRAMS	2007 TOTAL	2006 TOTAL
Government of Canada	$ –	–	–	–	$ –	$ 241
Province of Manitoba	1,308	–	18	–	1,326	1,335
Accrued vacation pay	863	–	–	–	863	859
Provision for pension obligations *(Note 17)*	6,124	–	–	–	6,124	5,976
Provision for severance obligations	1,386	–	–	–	1,386	1,333
Other	858	338	33	210	1,439	1,283
	$ 10,539	338	51	210	$ 11,138	$ 11,227

MASC employees are eligible for defined benefit pensions under *The Civil Service Superannuation Act*. As outlined in Note 3(D), MASC contributes 50 per cent of the pension disbursements made to retired employees of the former Manitoba Agricultural Credit Corporation (MACC) for service up to September 1, 2005. Additionally, MASC has a pension liability for employees whose earnings are out of the scope of the Fund plan.

Actuarial valuations are to be carried out every three years to provide an estimate of the accrued liability for unfunded pension benefits. An actuarial valuation of the pension obligations as at December 31, 2004 was conducted by Ellement & Ellement. The key actuarial assumptions were a rate of return of 6.50 per cent (2001 – 6.75 per cent), 2.50 per cent inflation (2001 – 2.75 per cent), salary rate increases of 3.25 per cent (2001 – 3.50 per cent) and post retirement indexing at two thirds of the inflation rate. The accrued benefit cost method with salary projection was used and the liabilities have been extrapolated to March 31, 2007 using a formula provided by the actuary. The following table provides the calculation of the liability for unfunded pension benefits of $6,124,000 (2006 – $5,976,000):

	2007	2006
Accrued pension liability – beginning of year	$ 5,976	$ 6,210
Experience gain	–	(499)
Benefits accrued	137	102
Interest accrued on benefits	118	406
Benefits paid	(243)	(243)
Accrued pension liability – end of year	$ 6,124	$ 5,976

In accordance with established Province of Manitoba practices, MASC must repay advances according to the amortization schedule or be subject to a prepayment penalty. The prepayment penalty is based on the net present value of the future cash flows of the loan being prepaid less the net present value of a loan with the same terms, except having an interest rate of a semi-annual, non-callable Province of Manitoba bond with the same term to maturity.

Advances are repayable in equal annual blended instalments of principal and interest, with interest rates ranging from 4.75 per cent to 8.00 per cent. The average interest rate of the entire portfolio at March 31, 2007 was 5.656 per cent (2006 – 5.752 per cent).

MATURITIES OF PRINCIPAL OVER THE FOLLOWING TERMS	2007	2006
1 year	$ 61,010	$ 62,213
2 years	39,204	38,229
3 years	36,348	36,272
4 years	33,095	33,425
5 years	32,634	29,711
More than 5 years	123,967	142,970
	$ 326,478	$ 342,820

The approximate fair value of advances from the Province of Manitoba at March 31, 2007 is $339,611,000 (2006 – $357,312,000). Fair values for the advances from the Province of Manitoba are based on the net present value of expected future cash flows, discounted by current interest rates for loans with similar terms and credit risk.

Deferred revenue represents administrative subsidies provided by the Government of Canada and the Province of Manitoba and is used to acquire property and equipment. Deferred revenue is recognized as revenue when amortization is recorded on property and equipment.

Production Insurance indemnities of $44,323,000 (2006 – $297,377,000) represent $43,206,000 for the 2006/2007 crop year and $1,117,000 as a result of a shortfall in the estimate of claims payable set up as of March 31, 2006.

MASC has entered into a number of long-term lease agreements. The minimum payments under these leases are as follows:

YEAR ENDING MARCH 31	LEASE AGREEMENT AMOUNTS
2008	$ 380
2009	139
2010	99
2011	42
2012 and beyond	3
	$ 663

(A) Contingent liabilities and the corresponding provisions for MASC's loan guarantee programs as of March 31, 2007 are shown below.

	CONTINGENT LIABILITY		PROVISION FOR LOSSES	
	2007	2006	2007	2006
Operating Credit Guarantees	$ 9,349	$ 7,296	$ 1,302	$ 1,193
Manitoba Livestock Associations Loan Guarantees	4,683	4,511	1,473	1,994
Diversification Loan Guarantees	7,609	10,440	1,141	1,366
Enhanced Diversification Loan Guarantees	56,196	48,302	8,430	7,577
	$ 77,837	$ 70,618	$ 12,344	$ 12,130

The Operating Credit Guarantee (OCG) program was introduced on April 1, 2003, replacing the Guaranteed Operating Loan program. The OCG provides the participating lending institution a guarantee of 25 per cent of each individual loan made under this program. The maximum allowable individual loan is $430,000, with $700,000 available for partnerships, corporations and co-operatives.

The Manitoba Livestock Associations Loan Guarantee program was introduced in 1991. For each association, MASC provides a guarantee to the lending institutions based on 25 per cent of the amount of the loan to a maximum guarantee of $1,250,000.

The Diversification Loan Guarantee program was introduced in December 1993 to provide guarantees on loans made by participating lenders for diversification or farm value-added activities. Under this program, 25 per cent of the private lender's loan portfolio was guaranteed. The maximum allowable individual loan was $350 million.

In 2001, the Enhanced Diversification Loan Guarantee program replaced the Diversification Loan Guarantee program. Guarantees are now based on 25 per cent of the original principal amount of each individual loan, with no maximum loan amount.

(B) MASC provides surety bonds for certain agricultural agencies in the amount of $83,130 (2006 – $53,781). No contingency provision is made for these undertakings in the financial statements. Any payments arising from claims under these guarantees will be recorded as an expense in the period that such claims occur.

(C) As at March 31, 2007 MASC had approved but not disbursed loans in the amount of $16,621,358 (2006 – $21,204,999).

(D) Various legal actions for additional indemnity payments have been commenced by insured producers against MASC. The outcome of these claims cannot be determined at this time.

An actuarial certification of the Production Insurance program was completed by Tillinghast – Towers Perrin, consulting actuaries, in June 2003. The actuarial review of MASC concludes that the methodologies used to establish the probable yields for insured crops meet the requirements of the federal Crop Insurance Regulations, that the premium rate methodologies are actuarially sound and are sufficient to meet expected claim costs, and that the program meets the financial self-sustaining criteria defined by the federal government.

A full actuarial certification has to be completed every five years with any new programs or program changes requiring approval in the interim.

24. Related – Party Transactions

MASC is related in terms of common ownership to all Province of Manitoba departments, agencies and Crown corporations. MASC enters into transactions with these entities in the normal course of business. These transactions are recorded at the exchange amount.

Interest earned on investments held by the Province of Manitoba amounted to $6,498,000 (2006 - $7,386,000). Included in accounts receivable (Note 8) is $1,215,000 (2006 - $860,000) of accrued interest related to these investments.

25. Comparative Figures

The amalgamation of the Manitoba Agricultural Credit Corporation and the Manitoba Crop Insurance Corporation resulted in the consolidation of financial reporting as if the corporations were one entity as of April 1, 2005. Certain 2006 figures have been reclassified to conform to the 2007 financial statement presentation.

26. Subsequent Events

In May 2007, MASC was authorized by the Minister of Agriculture, Food and Rural Initiatives to administer the Assiniboine Valley Producers' Flood Assistance program. The program is being funded by the Government of Manitoba for the purpose of providing assistance to agricultural producers operating along the Assiniboine River between the Shellmouth Reservoir and Brandon. The program covers losses to crops and the inability to seed crops resulting from flood damage in 2005 and 2006, due to the interaction of unexpected rainfall conditions and the impact of the operation of the Shellmouth dam on the river flows.

SCHEDULE 1
SCHEDULE OF ADMINISTRATIVE EXPENSES

For the Year Ended March 31, 2007 (in thousands)

	2007	2006
Adjustors' wages, benefits and expenses	$ 3,476	$ 5,126
Advertising	225	297
Amortization expense	122	146
Appeal Tribunal	15	22
Audit fees and legal	318	249
Directors' remuneration and expenses	148	149
Furniture and equipment	166	549
Information technology	778	803
Office rental and utilities	925	921
Other administrative expenses	385	471
Other administrative recoveries	(490)	(436)
Postage	183	178
Printing and office supplies	282	255
Salaries and employee benefits	10,402	10,130
Telephone	215	215
Travel and vehicle expenses	543	603
Total administrative expenses	$ 17,695	$ 19,678
Administrative expenses allocation:		
Lending Programs	$ 5,086	$ 3,999
Production Insurance Program	9,715	12,510
Hail Insurance Program	1,712	1,563
Wildlife Damage Compensation Program	371	352
Farmland School Tax Rebate Program	382	405
Other Programs	429	849
Total administrative expenses	$ 17,695	$ 19,678

For the Year Ended March 31, 2007 (in thousands)

	LENDING PROGRAMS		PRODUCTION INSURANCE PROGRAM		HAIL INSURANCE PROGRAM	
	2007	2006	2007	2006	2007	2006
REVENUE:						
Insurance premiums (Note 5)						
Insured persons	$	$	$ 46,692	$ 31,270	$ 12,546	$ 10,173
Government of Canada			42,507	29,710		
Province of Manitoba			28,336	19,800		
			117,435	80,780	12,546	10,173
Interest from loans	20,444	20,547				
Other contributions - Government of Canada			3,822	7,493		
Other contributions - Province of Manitoba	3,437	3,431	3,893	5,015		
Investment income	716	853	4,621	5,411	1,264	874
Real estate and other income	318	313				
Reinsurance recoveries (Note 10 (c))			118	89,470		
Total revenue	26,915	27,126	131,889	188,171	13,810	11,047
EXPENDITURE:						
Insurance indemnities and compensation payments (Note 10)			44,424	29,437	1,555	3,166
Reinsurance premiums (Note 10 (d))			17,247	11,935	681	922
Interest on borrowed funds	19,621	20,369				
Bad debt expense and guaranteed loan losses (Note 6 (c))	1,413	1,234	242	476	1	143
Young farmer incentives	1,336	1,400				
Farmland school tax rebate payments						
Other program payments		29				
Administrative expenses (Note 11)	5,098	5,069	9,713	12,430	1,712	1,369
Total expenditure	27,488	28,051	71,317	132,012	2,581	5,642
Income (loss) for the year	(573)	123	60,572	(134,341)	8,139	5,405
Funds retained, beginning of year	38,163	38,800	99,824	233,865	27,681	22,276
Funds retained, end of year	$ 37,590	$ 38,923	$ 160,396	$ 99,524	$ 35,820	$ 27,681

				OTHER PROGRAMS (NOTE 6)		TOTAL	TOTAL
				2007	2006	2007	2006

MASC OFFICE LOCATIONS

LENDING

BRANDON (CORPORATE OFFICE)
Unit 100-1525 First St S
Brandon MB R7A 7A1

ARBORG
Box 2000 317 River Rd
Arborg MB ROC OAO
BEAUSEJOUR
Box 50 20-1st St S
Beausejour MB ROE OCO
BRANDON
Unit 100-1525 First Street S
Brandon MB R7A 7A1
CARMAN
Box 758 65-3rd Ave NE
Carman MB ROG OJO
DAUPHIN
27-2nd Ave SW
Dauphin MB R7N 3E5
KILLARNEY
Box 190 411 Broadway Ave
Killarney MB ROK 1GO
MELITA
Box 609 139 Main St
Melita MB R0M 1L0
MORRIS
Box 100 229 Main St S
Morris MB ROG 1KO
NEEPAWA
Box 550 41 Main St E
Neepawa MB ROJ 1HO
PORTAGE LA PRAIRIE
200-50-24th St NW
Portage la Prairie MB R1N 3V7
ROBLIN
Box 820 117-2nd Ave NW
Roblin MB ROL 1PO
SHOAL LAKE
Box 130
Burlington Building 4th Ave
Shoal Lake MB ROJ 1ZO
STEINBACH
Box 760 284 Reimer Ave
Steinbach MB R5G 1M6
SWAN RIVER
Box 1138 120-6th Avenue N
Swan River MB ROL 1ZO
TEULON
Box 70 77 Main St
Teulon MB ROC 3BO
VIRDEN
Box 580 247 Wellington St W
Virden MB ROM 2CO
WINNIPEG
816-401 York Ave
Winnipeg MB R3C 0P8

SATELLITE OFFICES:

ASHERN
Box 260 43 Railway Ave
Ashern MB ROC OEO
LUNDAR
Box 40 9 Main St
Lundar MB ROC 1YO
ST PIERRE-JOLYS
Box 249 466 Sabourin St S
St Pierre-Jolys MB ROA 1VO
STONEWALL
293 Main St
Stonewall MB ROC 2ZO

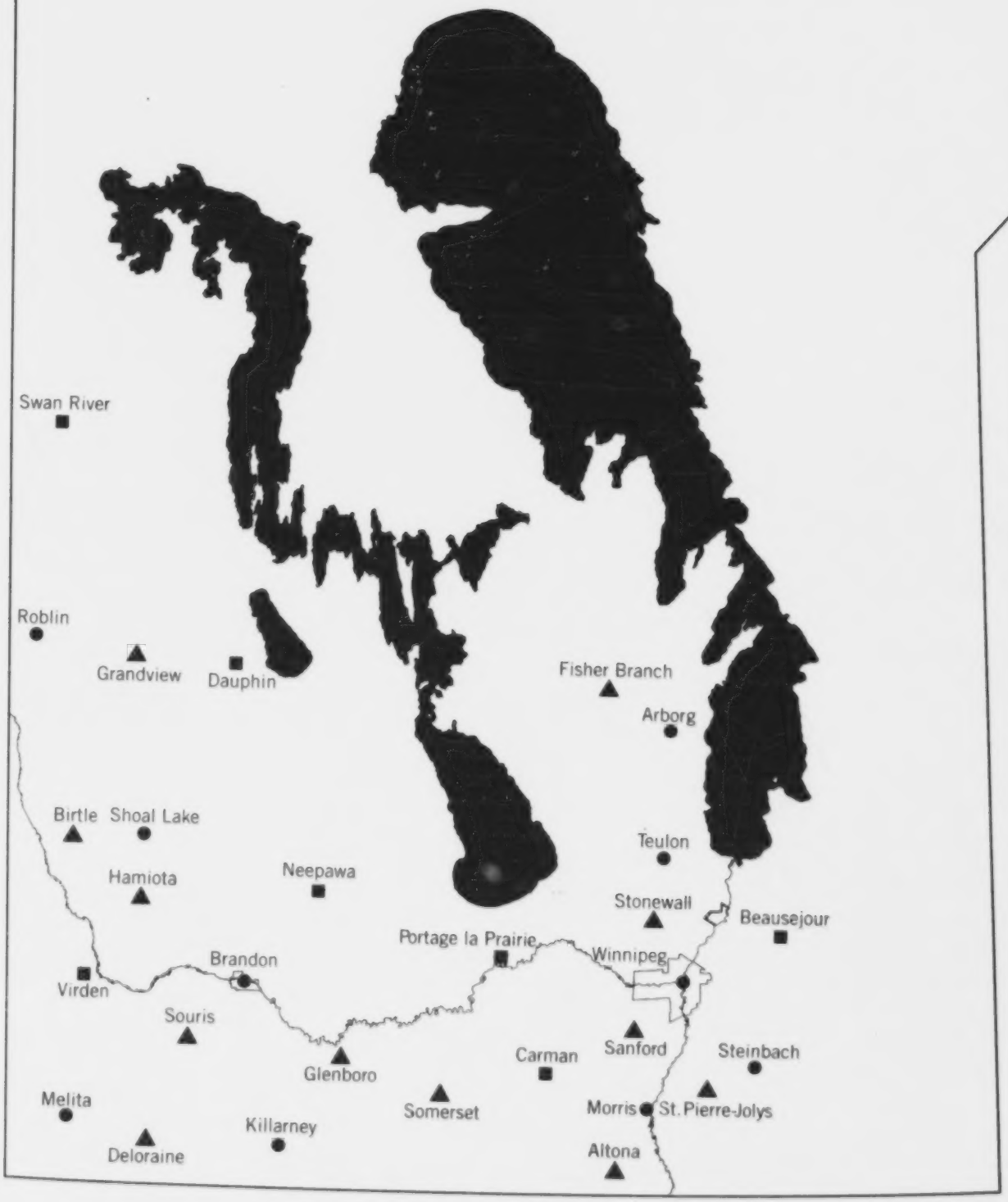
INSURANCE

PORTAGE LA PRAIRIE
(CORPORATE OFFICE)
400-50-24th St NW
Portage la Prairie MB R1N 3V9

ALTONA
Box 1209 67-2nd St NE
Altona MB ROG OBO
BEAUSEJOUR
Box 50 20-1st St S
Beausejour MB ROE OCO
BIRTLE
Box 39 726 Main St
Birtle MB ROM OCO
CARMAN
Box 490 65-3rd Ave NE
Carman MB ROG OJO
DAUPHIN
27-2nd Ave SW
Dauphin MB R7N 3E5
DELORAINE
Box 529 101 Finlay Ave E
Deloraine MB ROM 0MO
FISHER BRANCH
Box 359 Main St & Carpathian Ave
Fisher Branch MB ROC OZO
GLENBORO
Box 250 103 Broadway St
Glenboro MB ROK OXO
GRANDVIEW
Box 236 221 Roland Ave
Grandview MB ROL OYO
HAMIOTA
Box 50 221 Elm St
Hamiota MB ROM OTO
NEEPAWA
Box 1179 41 Main St E
Neepawa MB ROJ 1HO
PORTAGE LA PRAIRIE
200-50-24th St NW
Portage la Prairie MB R1N 3V7
SANFORD
Box 7 8 Main St N
Sanford MB ROG 2JO
SOMERSET
Box 190 279 Carlton St
Somerset MB ROG 2LO
SOURIS
Box 610 95-1st St N
Souris MB ROK 2CO
ST PIERRE-JOLYS
Box 249 466 Sabourin St S
St Pierre-Jolys MB ROA 1VO
STONEWALL
Box 277 383 Main St
Stonewall MB ROC 2ZO
SWAN RIVER
Box 1108 120-6th Ave N
Swan River MB ROL 1ZO
VIRDEN
Box 1570 247 Wellington St W
Virden MB ROM 2CO

MASC
Manitoba Agricultural Services Corporation

- Lending Office
- Insurance Office
- Insurance and Lending Office



Canada

Manitoba